September 2012

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INTERVIEW SPECIAL

SCOTT REDLER
The Workhorse

SERGE MILMAN
From Proprietary Trading
to Managing a Hedge Fund

TIM BOURQUIN
From Chasing Gangsters to Trading

SCOTT ANDREWS
The Price Gap Statistician

TRADERS´

YOUR PERSONAL TRADING COACH

TRADER INSIGHTS FROM NEW YORK

Time and again our readers express the wish that we tell the stories of successful traders. We thought about it and how we could best fulfil this wish – therefore we decided to attend the Traders Expo in New York and talk personally to some well-known US-traders on location.

We also want to introduce a new format with this special: A whole special edition full of interviews, where successful traders talk about their ups and downs, with specially chosen trading examples and the best advice for beginners and intermediates.

Look forward to the trading insights of famous traders like Scott Redler, Peter and Serge Milman, Scott Andrews, Larry Pesavento and Joshua Brown. We tried to choose stories for every reader – from beginner to professional. At the end of each interview I have added a short outline summarising what we can learn from that trader. Having said this I wish you an exciting read and I hope that you can improve your trading with some of the advice.

We are looking forward to your feedback from our interview special! What did you like and what could be improved? Would you like to read more about one of our interview partners in this issue or is there another trader who you would like to be interviewed? Send your ideas to redaktion@traders-mag.com. We are planning another issue of the interview special in the year 2013 and would like to include your suggestions!

Good Trading

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Deputy Chief Editor

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SCOTT REDLER

THE WORKHORSE

Mr Scott Redler has been active on the stock market for more than ten years, in the course of which he has achieved star status in the trading community. While working at Broadway Trading and Sperling Enterprises, his previous career stations, he was already one of the best traders. He became widely known for his pragmatic approach and his accurate predictions both on television and in trading magazines. Among colleagues, Scott has earned himself the nickname `workhorse´ for his heavy workload and perseverance, which is a reference not only to his trading but also to his top-level athletic achievements which included the successful completion of Ironman triathlons. In addition to his own trading, Scott is responsible for the trading strategies at T3 Trading Group. Interested traders may follow him on Twitter (@RedDogT3Live).

➔ Following one of his lectures, we met Scott by chance at the T3 Trading Group booth. He has half an hour for us before his next presentation – an excellent opportunity for us to conduct an interview. And as you will see, it covers a lot!

TRADERS´: You rank among the most sought-after traders at the Expo. We are very much interested in knowing how you got started in trading and how you became so successful.

Well, choosing to study finance really started everything. Even then I had an entrepreneurial urge that I just could not resist. Besides my studies, I worked as a speaker at weddings and quickly learned how to speak before an audience of 300 or 500 people. This has always helped me during my career and above all in front of a television camera. After graduating from college, I worked for a broker here in New York for two years. I did not like the work there because I felt like a salesman. So I looked around for something else and did a one-year stint at a venture capital company which by its very nature was entrepreneurially-oriented. Along this route I managed to establish contact with Marc Sperling whose company I joined as a trader in 1999. After one year I was among the best traders there and I became a partner after only three years. Later on, I founded T3 Capital Group together with Marc Sperling and three other traders. I have kept trying to improve myself, which in my opinion makes the difference between success and failure.

TRADERS´: How did you experience the bursting of the Internet bubble?

Only when the New Economy bubble burst did I really learn how to trade *(laughs)*. You might say I had been

F1) DON'T LISTEN TO THE ANALYSTS

On 20th April 2012, Scott wrote on Twitter: "Those who bought Apple at more than $615 the day before yesterday because Goldman Sachs upgraded the stock, won't be feeling so good today." The blue mark shows 18th April. The upgrade occurred almost exactly at the high.
Source: www.tradesignalonline.com

F2) LOSING TRADE

Scott was long Google call options and optimistic from a fundamental perspective but the company missed expectations when first-quarter figures were released. His options went worthless, but it was a calculated and defined loss.
Source: www.tradesignalonline.com

´a bit' too aggressive until then. I remember trading one of the then high-flying stocks which formed an unpleasant overnight price gap and caused me to suffer a six-figure loss in my overall portfolio in the course of one day. You learn from such things though. I became increasingly risk-averse and traded more conservatively, which incidentally I would like to urge every newbie to do.

TRADERS´: How did your trading turn out to be in the following years?

As of 2003, volatility kept decreasing. Yet I knew that I should on no account overtrade despite the lower day ranges. You have got to be patient. During this phase, lots of people who were not really full-blooded traders were swept off the market. In late 2007 and early 2008, when I warned against a major downward movement several times, including during television appearances, I became well-known to the media. After the Lehman crash I switched sides, pointing out in October 2008 that the low prices were the buying opportunity of the decade and people should get ready to bet increasingly on long positions again. You are welcome to search my earlier predictions on Google to verify that I have really mentioned these scenarios. Even some of my old TV broadcasts from 2008 can still be found online.

> I always run a hard stop in the market which takes me out of the trade.

TRADERS´: Predictions are always a bit tricky. What are they based on in your case?

I have a pragmatic approach. Let us call it a "fundamental common-sense approach", that is to say an assessment of the situation on the basis of common sense. This at least applies to my long-term positions. I watch the markets every day and catch all kinds of sentiment in my intraday trading. This as well as the fundamental data and news can be used to roughly predict which way things are likely to develop. To help me in my everyday decision-making, I very much rely on technical analysis. So it is a combination of these forms of analysis, sentiment development, and personal experience. In addition, you always have to keep an eye out for how the market reacts to news. It is this reaction that is often much more important than the news itself.

TRADERS´: Can you show us a trade that you got wrong and caused you to suffer losses?

I was way off the mark on Google in January 2012. I was long in call options and optimistic from a fundamental perspective but the company missed expectations when first-quarter figures were released (Figure 2). My options went worthless, but it was a calculated and defined loss. We as traders rarely, if ever, take stocks into earnings.

TRADERS´: How do you proceed in the case of normal losing trades once your stop price is reached?

I always run a hard stop in the market which takes me out of the trade. I do not think much of "mental" stops. Losing trades happen all the time. The trade is closed out, briefly analysed, and then trading continues as usual.

TRADERS´: Which technical instruments do you look at most?

First of all, it is important to follow only the strongest stocks. This alone increases the probability of success significantly. Above all, price patterns and the 10, 20, 50, 100 and 200-day moving averages (MAs) are important to me.

TRADERS´: How do you apply MAs in practice?

If a stock is in a strong trend, I want to see that prices can hold above these lines. Ideally, they represent good supports within the trend. Sometimes you can trace exactly how a stock makes a correction to the 10-day MA only to take off again from that point.

TRADERS´: What other criteria are also important to select long and short candidates?

It is a good sign when a stock can hold its own in a weak overall market and may even rise against the trend during the trading day. During these phases the respective shares show their true colours – i.e. whether they are among the winners or losers. Losers are not necessarily a bad thing because such stocks can be shorted.

TRADERS´: Can you explain your methodology in managing trades in more detail?

I have a tier-3 system. That means an initial position is at first a feeler, meaning a minor test with a small position size. If the trade gives me a good feeling and the market allows me to do so, I expand the trade to a tier-2 trade. Now the position size is significantly higher. If things are going really well, I can expand the trade to a tier-3, running maximum size. That does not happen very often but when it does, this position is a longer-term core investment.

TRADERS´: Can you describe for us one of your strategies for short-term trading?

My favourite set-up for shares which show a parabolic movement is the Red Dog 80-20 Reversal (Figures 3 and 4). I've named it after myself because I'm so fond of trading it *(laughs)*.

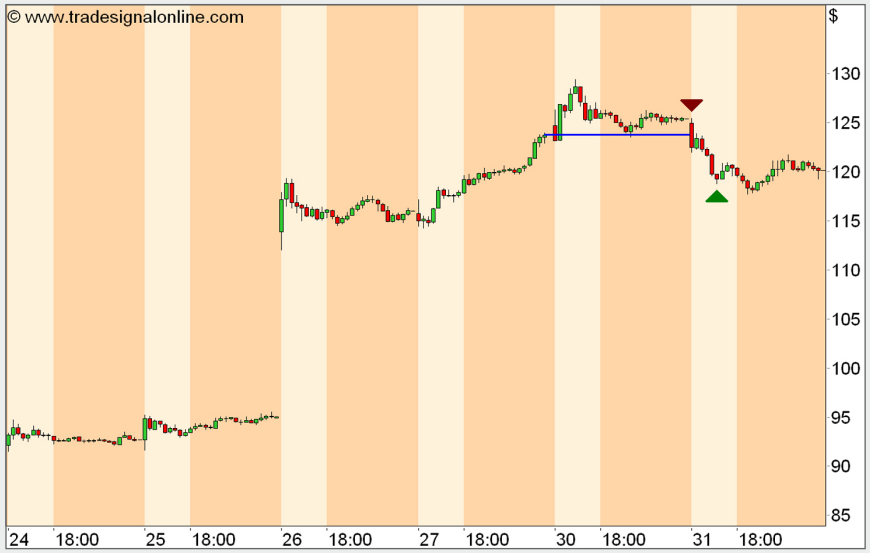
The set-up is suitable if three or more very strong upward days, ideally increasing in strength, have occurred in succession. If prices rise above the previous day's high and then fall back to it again, it is getting fascinating. The point is then to find out whether the level holds. If prices drop clearly below that level, I go short. Chances are good then that a quick correction of the previous exaggeration will take place. Usually, the exit is made gradually into the move, or at lower areas of support. Overall, the Red Dog Reversal offers a very good risk/return ratio in conjunction with a good hit rate.

TRADERS´: Do you reduce risk before the close if you have larger positions?

Yes, I do because anything can happen overnight. Just last year there was an especially high headline risk on the economic and political front. Sometimes I also take profits in pre-market or after-hours trading if things are getting too hot for me.

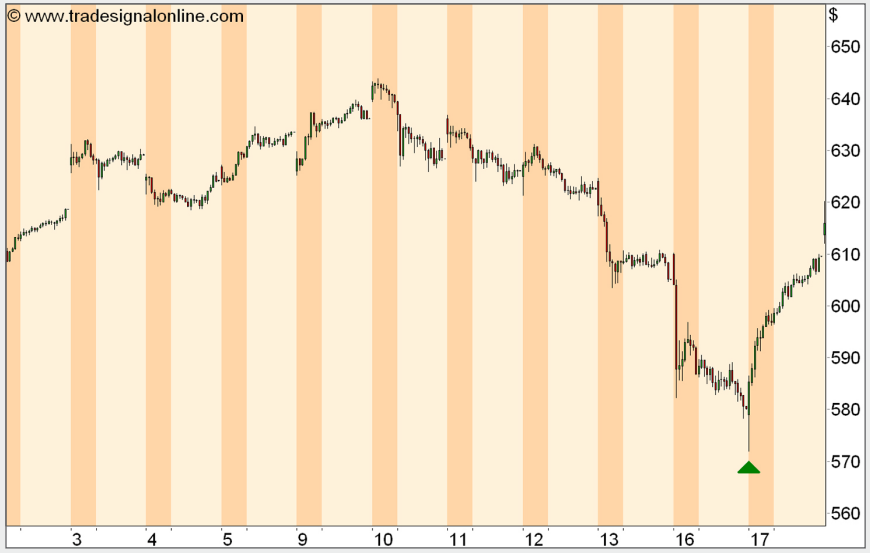
TRADERS´: You are trading on different time frames simultaneously. How exactly does this work in practice?

F3) RED DOG 80-20 REVERSAL



This technique is Scott's favourite strategy. After the steep rise of Netflix (NFLX), he looked for a short opportunity. On 30th January 2012 the stock traded close to the previous day's high (blue line), but couldn't break through it dynamically. The next day the breakthrough succeeded and Scott opened a short position (red mark). He gradually closed out the trade, finally in the range of $120 (see green mark). Source: www.tradesignalonline.com

F4) PERFECT RED DOG REVERSAL



Here you can see a Red Dog Reversal for the long side. After Apple had dropped severely for several days, 17th April also began with a short-lived sell-off which quickly turned into a strong recovery. Scott anticipated this and went long even before prices rose to near the previous day's low, using a tight stop at the day's low. Here, too, there was a gradual exit into the upward movement.
Source: www.tradesignalonline.com

I have some long-term positions that I am fundamentally convinced of.

Depending on the technical situation, I then trade around these core positions on a short-term horizon. This means I increase or decrease the position depending on market performance. You could say I engage in short-term trading with a long-term long bias.

TRADERS´: From a psychological angle, which qualities are important for becoming a top trader?

I think it has to be a combination of several things. You need to have discipline and routine to apply your strategy and you need to have the necessary strength to do your trading in bad times. Obviously, this is absolutely impossible without risk and money management, which is why both must be implemented with as much rigour as the rest of your trading. The whole thing is a work in progress, which means that it can hardly be learned from one day to the next.

TRADERS`: Do you think private traders are better off nowadays than institutional traders?

Yes, they are. At least you have got certain minor advantages as a professional trader. Because of the comparatively small positions, we can quickly enter or exit the market, and can do so at low cost. A decade ago, this would not have been possible to such an extent. I think that on the whole, the "game" between the institutional and the professional retail traders is fair. However, a trader first needs to get to the level of a pro. And this means hard work, painful mistakes and ever-new adjustment processes. In short, you just have to be a real "workhorse" for your chances to be quite good.

TRADERS´: Finally, a question about your "hobby". How did you get the idea of participating in an Ironman? What is it that motivates you so much to enable you to swim 3.8 kilometres, ride a bike for a distance of 180 kilometres and subsequently run a 42-kilometre marathon – all of that without a break? And has the whole thing something in common with trading?

Sport helps me to organise my thoughts and stay focused. Some wonder if I don't get burnout as a result of my extensive workout programme, but in reality it helps me. In sport as in trading you need a strong process orientation – to deliver good results you must be well prepared, stick to your plan and then really get going at the right moment.

SUMMARY

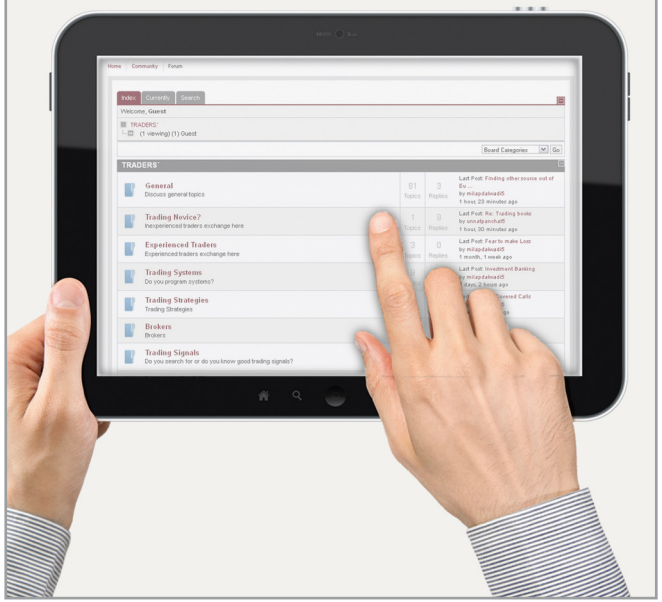
Scott Redler is one of the most successful traders represented at the Expo. Those who have read something about his biography in the book "The Modern Trader" know that even as a student he had an unmistakable entrepreneurial spirit. Unlike many of his fellow students, he was among those actually implementing their ideas. In fact, among those who did implement their ideas he was one of the few who really worked hard and were determined to be successful. It was only in a roundabout way that Scott came to trading though. Again, his absolute commitment to success helped him to rapidly climb the career ladder in his first job with a proprietary trading firm. This resulted in a network that enabled him later to become the co-founder of a proprietary trading and training company where he himself still trades today and also oversees all the trading strategies. Despite his success, he is a down-to-earth person and happy to pass on his knowledge to others free of charge, using video, blog, and Twitter to write professional, intelligible and, above all, honest posts. Scott is a trader who really loves stock-market trading – on account of the challenge. And Scott proved that he meets any challenge and never gives up when, despite being utterly exhausted, he dragged himself across the finishing line at one of the most brutal endurance competitions in the world – an Ironman triathlon (also described in the book "The Modern Trader"). This underlines his indomitable willpower and perseverance which similarly radiates from his trading and has helped him to enjoy such great success. If you are looking for a real role model in trading, Scott Redler seems like a good choice.

TRADERS´

IN NEED FOR DISCUSSION?

Then visit our forum and chat, debate and learn with other passionate traders and the editorial staff.

www.tradersonline-mag.com/index.php/forum



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CITY: New York

INTERESTS: Politics, Culture, Sarcasm

TRADING STYLE: Long-term Position Trading

WEBSITE: www.TheReformedBroker.com

JOSHUA BROWN

BACKSTAGE WALL STREET

Joshua Brown works at Fusion Research, an investment manager for wealthy clients. He is online day and night and comments on the markets on Twitter under the handle "Downtown Josh Brown" (@ReformedBroker). His insightful, always entertaining and sometimes ironic comments grew his number of followers to over 25,000. In March 2012 he published his book "Backstage Wall Street" that offers an honest view behind the scenes of the financial world. We visited Joshua in his office in New York and talked about his trading and his strategies.

➔ TRADERS´: It is always exciting to hear how people got involved with the stock markets. How did you start?
It was hard *(laughs)*. But that is the case with most traders. After college some of my friends went to New York and earned a lot of money. Of course that got me interested. My goal was Wall Street and that is where I got – as a so-called "retail stockbroker".

TRADERS´: You started in retail and it sounds as if you did not like it very much.
Exactly. The main task is to convince clients to trade as much as possible and therefore to produce as much fees as possible to make the brokers rich (and very seldom the clients). High sales are most important in this business but it is not the honest and right way that I wanted to take in my financial career.

TRADERS´: What did you learn during this time?
I mainly learned what I should not do. I saw people go broke again and again. People that made massive mistakes.

And I saw people that were advised wrongly by retail-focussed employers. At the same time I saw what worked. I developed my own style and my approach because of all this experience. But mainly I am happy that I made the jump out of the retail stockbroker business.

TRADERS´: What does your job look like today?
I work as an investment advisor and asset manager and I manage the money of about 120 wealthy clients. The whole thing works the classic way, all is transparent and we charge a fee.

TRADERS´: Asset allocation means a long term positioning of the portfolio. How do you do it?
The long term alignment of the portfolio is based on classical portfolio concepts.

We are an investment management company, not a gambling hall. There are three models from conservative to aggressive. As the case may be they consist of exchanged traded funds (ETFs), classical investment funds (mutual funds) and single especially value oriented stocks. The goal is to minimise management fees and turnover fees.

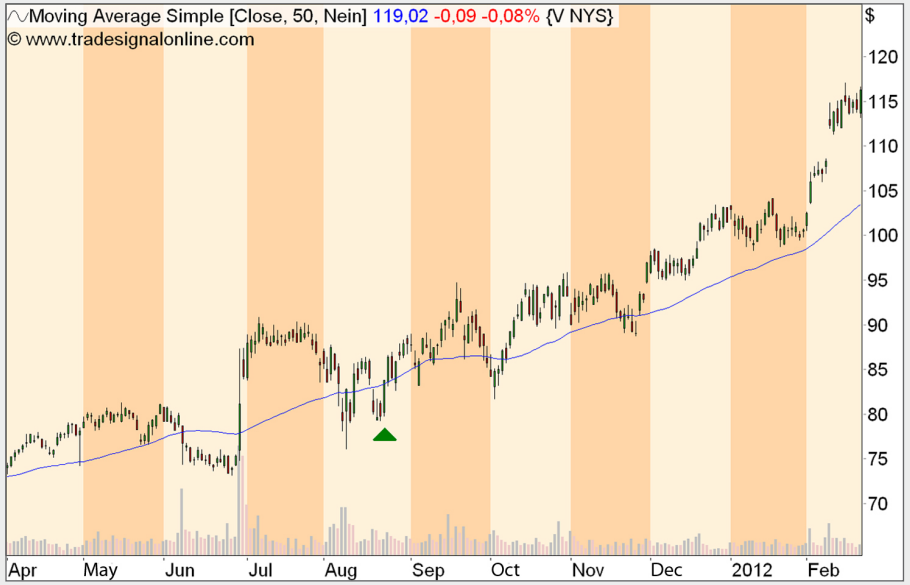
TRADERS´: Is there any trading involved?
Trading decisions form the overlay of the portfolio. In other words, we generate additional earnings with trading. This only makes sense if trading earns more than it loses over time.

TRADERS´: How can you be sure to win with trading?
We have an algorithmic approach. This involves a screening process that searches all possible stocks and ETFs and evaluates them after different fundamental (about 40 per cent weighting) and technical criteria (about 60 per cent weighting). We use our software Fusion IQ, a tool developed for professional traders by Barry Ritholtz (reviewed in TRADERS´ 06/2012, starting on page 30). At the end the program filters some nice ideas that have "survived" the process and that is what we trade.

If you have the right stocks trading is not that hard concerning the process because it is enough to take simple criteria for entries and exits. This would be more difficult without the screening process. That is why many people trade after recommendations given on TV or after the current market situation. Or they trade emotionally.

TRADERS´: Can you go into detail concerning the criteria of the screening?
Yes, I would like that, but I cannot talk about the exact adjustments. The screening looks at macro criteria such as the risk premium of stocks compared to government bonds, credit spreads of high yields

F1) SUCCESSFUL LONG TRADE: VISA (V)



Joshua Brown bought Visa in August 2011. In the following weak market phase the stock stayed strong and broke its high of July in September, when other stocks reached their lows. Afterwards the stock made a strong up-move. At the time of this interview Joshua was still invested. Source: www.tradesignalonline.com

compared to low yields and how the direction of the leading economic indicators are.

In addition we look at important news like earnings and insider deals at single stocks. Technically we look for example, at the current momentum, the TICK-indicator and the Money-Flow-indicator as well as the MA 50. The important thing is to recognise where support and resistance are to be expected. The screening runs over night and in the morning the data is processed.

TRADERS´: How do you use discretionary elements?

The screening is good, but you must not trust data completely. The fact alone that the price history is limited shows that the actual trades have to be selected. My trading is a combination of the screening model and discretionary decisions. That's what I call "Street Smarts".

TRADERS´: Can you give an example?

The model showed a considerable accumulation of financial stocks in January 2012. To be honest, we hated financial stocks at the time. Therefore we decided on a middle ground and we minimised the filtered list aggressively and finally only really attractive stocks were left. And we bought them.

TRADERS´: Summing up your beliefs: What is most important in selecting great stocks?

In the end the most important is to buy the strongest stocks in the strongest sectors. That is where I want to be invested. The direction of the stock has to be right and the sector has to be in the same direction, as well.

TRADERS´: What about short trades?

I do not like to do shorts. It is difficult to short and sometimes it is not possible with margin. If the markets dip I am positioned in cash mainly in the trading part – at 100 per cent in the extremes.

TRADERS´: Can you show us a precise trade?

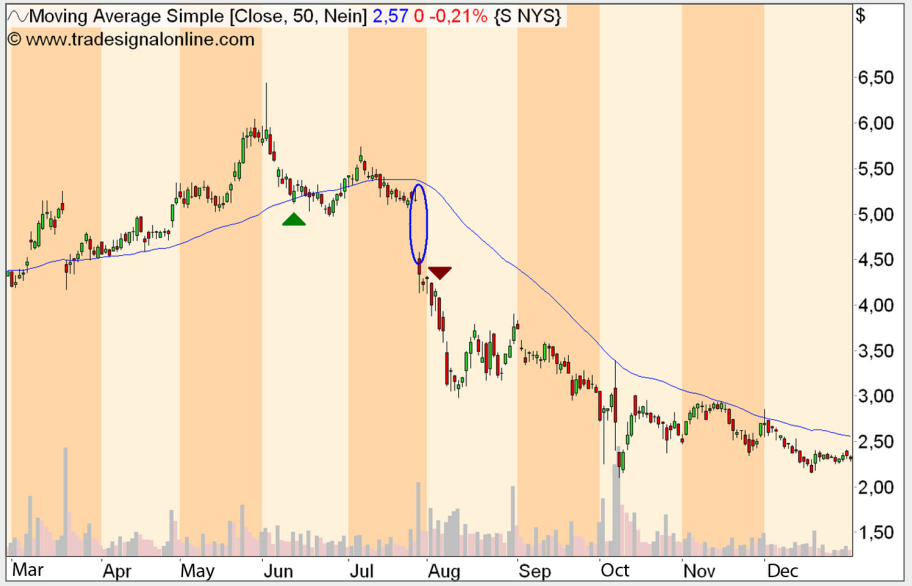
A nice example is the stock of Visa (Figure 1). It was on the screening list in the autumn of 2011 and so I looked at it more carefully. We expected increasing activity in online-business and that should be good for credit card companies. What is interesting about Visa is that there is practically no credit risk, because Visa issues credit cards and is paid by transaction, but the credit risk is on the particular bank.

Many people do not know this. It is the same at MasterCard. Anyway, at that time I heard that Warren Buffett was invested in Visa, as well. In combination with the strong technical situation I was very bullish for the stock and I bought a relatively big position of five per cent in August 2011. Although there was a breakdown of the market the stock showed immense relative strength and in September 2011 it went above its high of July.

TRADERS´: When did you enter and how did the trade develop?

In the end the most important is to buy the strongest stocks in the strongest sectors.

F2) BIG LOSS WITH SPRINT (S)



This trade is an example for how you better not do it. After a believable analysis by a hedge fund manager that was not confirmed by the screening, Joshua Brown bought Sprint. The expected turnaround in its fundamentals failed and because of disappointing data the stock dropped. After a down-gap (see mark) he did not sell immediately but hoped that the stock would reverse. He exited at considerably lower prices – but you can clearly see that staying in the stock would have been even worse.

Source: www.tradesignalonline.com

It was at the 80 USD level. Currently the stock is at 116 USD. *(Editorial comment: The interview was conducted in February 2012.)*

TRADERS´: So you are still invested. The question now is: When will you exit?
In general I try to have a low turnover rate. Therefore I like to stay in a stock longer. In addition, I have to find a better alternative for the changing position. It makes no sense to exit the trade only

because it is high in profit, but the stock is still on the top of our list at that time. And Visa currently is, so it has potential to go up further.

TRADERS´: Are there any events that would make you exit immediately?
Of course! If I am 100 per cent sure of a position, but the company is involved in a scandal, I sell immediately. No question, exit. Such events are for example any bookkeeping problems or missed expectations at the quarterly earnings. "Little" bookkeeping problems several times led to bankruptcies; therefore you should sell immediately at any price.

TRADERS´: How do you deal with trades that do not develop as planned?
In the summer of 2011 I had a catastrophic trade. With hindsight I should not have entered the trade at all. It is a good example for something you should not do. I was at the IRA Sohn Hedge Funds-Conference which is about Value Investing. One of the managers presented a convincing trade of the stock of Sprint, which evidently offered a lot of arguments for buying. It was a turnaround story that was not very good fundamentally – therefore it was not discovered in our screening. I believed in the trade and opened a long position. A little later happened what should not have happened: Sprint missed the expectations and there was a big down-gap of more than ten per cent. As if this was not enough, I did not sell – against my principles – immediately because I wanted to wait for a rebound. But the stock dropped another ten per cent until I finally exited. The lesson of this story: Do follow your rules. And do not ever bet on turnarounds, especially not with technology stocks. Once they drop substantially, they will rarely reverse. One well known exception is Apple, of course *(laughs)*.

TRADERS´: Most traders do not like to talk about their losses and surely not about the big ones. Thank you for your honest insight!
The good thing is that I really learn from my mistakes. I try to minimise my ego with trading and I have a better feeling if I admit my mistakes.

TRADERS´: What's the "secret" to making a fortune in the stock market?
There is a simple answer: the compound interest effect. Albert Einstein called it the eight world wonder. Look at people like Warren Buffett who made their fortune in the stock market. They traded solidly over decades and reinvested time and again. To trade solidly means to find a repeatable trading process that excludes emotions. Let us assume you get a hint that the biotech company X will get the license for its blockbuster-pill the following day and nobody knows it yet. This is a home-run trade.

You buy the stock and cash in the next day. But you will not get rich this way but you meet people who give you such hints every day *(laughs)*.

TRADERS´: Thank you very much for your insights! Can you tell us a little bit about your book which came out in March?
I know, a lot of people say this, but I wanted to write something completely different from the rest of the books *(laughs)*.

In short: It deals with whom you can trust in the financial industry and whom you better not trust and how to get the best out of it. I have tried to show it honestly. I think you learn some things from the book that you have not heard or read anywhere else before.

SUMMARY

On his Twitter account, Joshua Brown not only offers interesting market information and exciting analyses but also refreshing entertainment. Those who used to look at the financial industry as being dry and boring will love Joshua's commentaries. He also showed character during the interview when he was asked about a bad trade and cited the example of one that belongs in the "major disaster" category. Not everyone can deal with losses as openly and honestly as that. And certainly not everyone learns from their losses as well as Joshua has. Arguably, this is one of the great secrets of trading success: openly facing your losses, analysing your error in detail, and then never making that mistake again. A simple formula and one that – if we are perfectly honest – only our egos prevent us from following.

CITY: Los Angeles

INTERESTS: Jet Skiing with Family, Chasing Bad Guys

TRADING STYLE: Swing Trading

WEBSITE: www.TraderInterviews.com

TIM BOURQUIN

FROM CHASING GANGSTERS TO TRADING

Mr Tim Bourquin is the co-founder of Traders Expo and The Forex Trading Expo. Previously, he worked as a police officer with the Los Angeles Police Department (LAPD), chasing criminals at night while trading the markets in the morning. Today he trades on his own account and organises Trading Expos worldwide. In addition, he publishes trading interviews on www.traderinterviews.com on a monthly basis.

➔ TRADERS´: Tim, you started your career as a financial planner, then joined the police and later returned to the world of finance. How did all this happen?

Well, to be honest, I did not find my job as a financial planner particularly motivating. Just having to sell something all the time simply was not fun. Since I had always found police work exciting, I then decided on a career change, which was not motivated by the prospect of higher pay but based on my own personal interest.

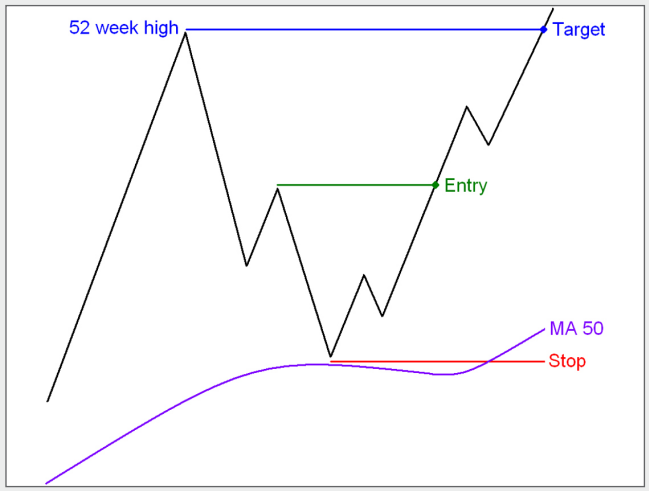
When I open a trade, I determine my stop and target price in advance.

At that time I didn't know that the financial industry included jobs that were as exciting as that of a trader – or at least I had a different idea. Anyway, I would occasionally go jogging with a co-worker at the LAPD, and we would have a lot of discussions about trading. Eventually, I ended up trading in the morning, which here on the US west coast is done very early in the day.

TRADERS´: And the Expos then simply "evolved" from that, did they?

In my early days I would look for people to exchange trading ideas with. Otherwise, you are virtually isolated as a trader. It was this exchange that led to the idea of an Expo, and the whole thing has just grown more and more over the years.

F1) 52-WEEK HIGH TRADING SCHEME



The setup is created when a stock reaches a new 52-week high and then makes a correction to the 50-day MA. If the stock then rises again above a previous intermediate high, a long entry is called for, the stop being below the low of the movement, and the target price at the 52-week high. One could hold parts of the position beyond the 52-week high for further profits. Analogously, the setup is applicable on the short side. Source: TRADERS´ graphic

F2) PRICE DROP AFTER THE COSTA CONCORDIA DISASTER

The Carnival Corporation (CCL) stock plunged following the disaster. Tim Bourquin was looking for competing companies to find potential trading opportunities (see Figure 3).
Source: www.tradesignalonline.com

TRADERS´: What are your principles in trading?
I have a very strict procedure. When I open a trade, I determine my stop and target price in advance. The rest is taken care of by the market. However, if you lack a strict procedure this will lead to nervousness, lack of discipline when executing a trade, and other errors resulting from that.

TRADERS´: Can you tell us the exact approach you use to trade?
I bet on stocks that move in trends. I find decent stocks by clicking through the list of new 52-week highs and lows. New highs are potential long candidates and new lows are potential short ones. Then I look at the stock picks to see where the 200-day and 50-day moving averages are. Especially at the 50-day line, good opportunities can be found time and again since it is there that trending stocks often resume their main direction again.

If there are chart patterns and important trend lines, I pay attention to those as well. Furthermore, the position of the highs and lows vis-à-vis each other is important. I won't trade the stock until several criteria appear at the same time. This will increase the hit rate significantly, and I would advise any trader to act similarly. More often than not, a trigger alone is not enough to gain an advantage.

TRADERS´: Many traders avoid shares near their 52-week highs or lows since they have seemingly risen or fallen far already. What do you think of this?
As I have witnessed many times before, shares frequently rise the most when everyone says they can't go any higher. The same applies to the short side. A stock has never risen too far for a short-term trader – not a long term one though – to potentially buy. Most novice traders will feel "safer" though when they buy shares that have fallen, assuming that it was a "bargain". This would-be trading of lows along with hopes of a trend reversal is seldom met with success, which is why newbies in particular are usually doomed to fail when using such an approach.

TRADERS´: Do you ever take a look at the volume of trade?
Oh yes, as a matter of fact, more often than not. In an intact trend, it's always good for the direction of a trend to be confirmed by volume. However, if prices rise on falling volume, caution should be exercised with regard to existing long positions.

Shares frequently rise the most when everyone says they can't go any higher.

TRADERS´: What percentage of your trading capital do you risk on each trade?
A maximum of two per cent. Usually, however, significantly less.

TRADERS´: You mentioned that you work with target prices. Can you give us an example of how exactly you proceed, where your stop is, and what risk/reward ratio (RRR) you achieve?

F3) LONG TRADE AT ROYAL CARIBBEAN CRUISES (RCL)

On the day the CCL stock plunged, RCL only had one pullback which Tim Bourquin used for a long entry (marked green). Since the disaster was a one-off event, the RCL stock should not be affected. The stop was below the 50-day MA. After a subsequent pullback to the 50-day MA, the stock rose to more than $30. The exit was made when the price weakened in February (marked red). Source: www.tradesignalonline.com

I am going to describe one of my setups to serve as an example. Suppose a stock hits a new 52-week high and makes a correction to the 50-day MA. Along this brief downward path it also forms a lower intermediate high.

Now if the stock once again rises above this intermediate high, I would go long, my stop being below the low of the movement and my target price at the 52-week high (Figure 1). There is a high degree of probability that the stock will again be moving back up to the high. When using this approach, the RRR is only slightly higher than 1.0. The rather high success rate makes the approach profitable.

TRADERS´: Do you also enter the market when gaps are developing in the direction of the trend?

No, I do not, but wait instead for the gaps to close. If in the example just described an upward gap occurs in my entry-level area, the price is already too far away from my stop (and too close to my target price). On average, the RRR would then be below 1.0 – and that is what I would like to avoid.

TRADERS´: Can you describe yet another trading idea for us?

I also enjoy trading on the basis of news if I see a good trade setup. In general, it is difficult to describe something like that, so I will give you a concrete example. I am sure you can still remember the Costa Concordia maritime disaster in January 2012. The ship belonged to the Carnival Corporation (CCL) company. Figure 2 shows the steep decline in the company's stock price. While it was obvious that this disaster was a one-off event, the competitors' shares also declined briefly – for example, the stock of Royal Caribbean Cruises (RCL, see Figure 3). However, RCL did not drop below the 50-day MA, which I interpreted as a sign of strength. So I use the pullback as a low-cost entry into a stable stock. I held the trade until mid-February when the stock developed a protracted weakness.

In an intact trend, it's always good for the direction of a trend to be confirmed by volume.

SUMMARY

Tim Bourquin is one of the many career changers who ended up in trading. During his first career with the Los Angeles Police Department and in discussions with one of his colleagues there, he developed the idea of trying his hand at stock-market trading. For some years he worked both jobs simultaneously. This is an option that seems like a good and, above all, low-risk solution for many aspiring traders: keeping your day job and earning a second income with a relatively small trading account to gain more and more experience over time and constantly improve your performance – until, having persevered, you may achieve your dream of your trading eventually generating consistently higher profits than your income from your day job. Tim has expanded the whole thing later on by using his network in the trading world to help start organising Traders Expos in the United States and later worldwide. These projects have originated over time alongside his trading and have then been increasingly developed to form today's great network of trading events. At this point a special thanks to Tim Bourquin because ultimately it was one of these Expos that made all the interviews in this magazine possible!

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LARRY PESAVENTO

PATTERNS, PATTERNS, PATTERNS!

Larry Pesavento is a dinosaur in the trading world and an acknowledged expert for charting patterns. His website is www.tradingtutor.com. He has more than 50 years of trading experience and he has published eleven books in five different languages. If you are successful so long and stay relaxed the way he was at our interview at the Expo, you must have done many things right. We are happy that Larry took his time during the expo for this exclusive interview directly at the TRADERS´ booth.

➔ TRADERS´: Can you tell us shortly how you got into trading?
Of course, I would like that. It was a long time ago. But I can remember very well that a former college-professor was a trader and so I took notice of the whole thing then. He was professor of statistics and economics, which is the perfect combination from my point of view to learn all the important things.

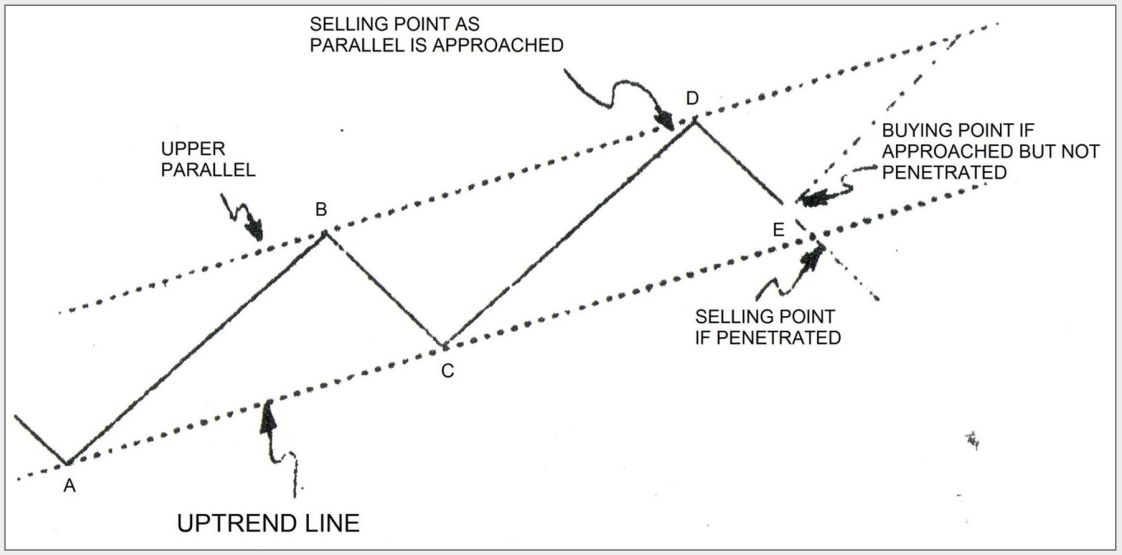
TRADERS´: And which are those?
Because of his knowledge in statistics he knew that you cannot trade back and forth anyhow to earn money in the market. You have to have a statistical advantage in your method. He did a lot of analysis and he found out that simple technical concepts like support and resistance or 50-percent-pullbacks after some momentum in a trend work especially well. It does not have to be as complicated as many believe. In addition he identified different cycles like the 18-, 32- and 64-days-cycles. He used only technical concepts and no fundamental data, which was the absolute exception in those days. I have adopted many of his methods but I also modified some and have developed my own style.

TRADERS´: How did you do it?
Very easy: trial and error *(laughs)*. It was not the case that I was born as a wise man and acted professionally from the beginning. At the beginning I had a lot of luck because it was a bull market and my trading worked well – as it does for most traders in a bull market.

TRADERS´: Do you remember your first trade?
Yes, that was in 1960 with the stock of Elastic Stock Net. But do not ask me, if I can show you a chart *(laughs)*. Well, I tripled my money and bought a car.

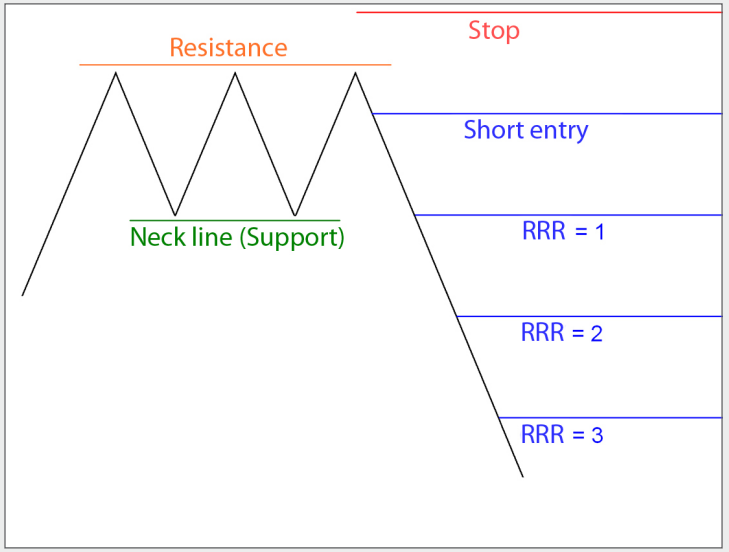
TRADERS´: A start from zero to 100. How did you continue?
They were wild trading times, I can tell you. No risk management *(laughs)*. At the beginning I only won and at some time I was totally broke. The classical

F1) ABCD PATTERN



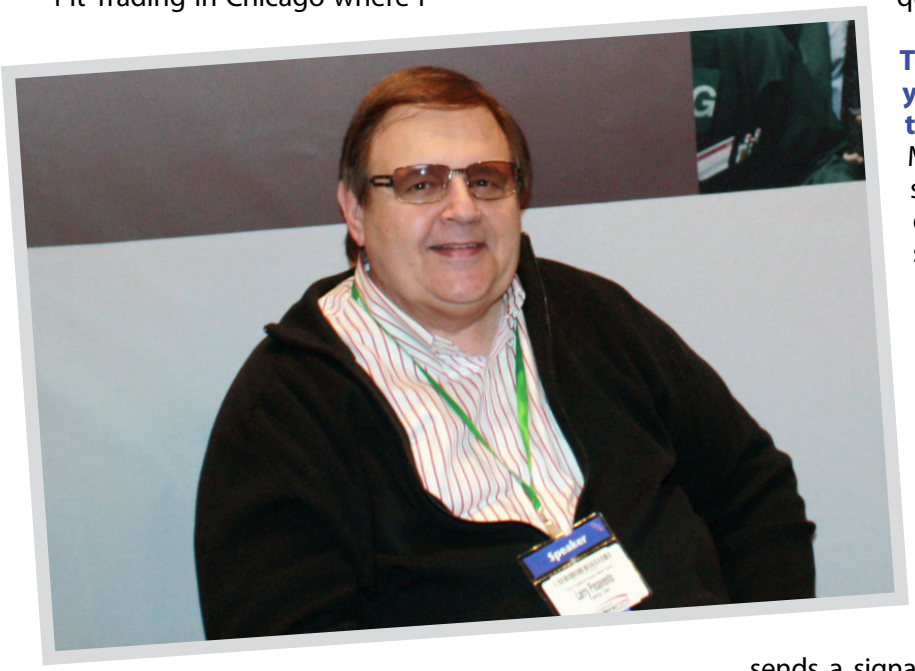
Many chart patterns are based on triangles. Some patterns like the ABCD trend channel pattern are based on more complex patterns which include Fibonacci relations or others.
Source: www.tradingtutor.com

F2) STOP LOSS AND SCALING OUT



The scheme shows how Larry Pesavento manages a trade with the triple top pattern. He enters at or shortly before the third assumed top of the triple top. "Officially" the pattern is confirmed only after the break of the neck line. The stop lies comfortably above the pattern to prevent being stopped out with a spike. The exit is executed in three steps after reaching the RRR of 1, 2 and 3 (this equals one-, two- and three times the initial risk, which is the difference between entry price and stop-loss). Source: TRADERS´ graphic

trading career, you can say. But I continued. I worked in the pharmaceutical industry for some years and started working as a commodities trader at an investment company in Beverly Hills. Afterwards I was Pit Trading in Chicago where I



traded mainly the S&P Future for three years. At this time I knew that trading with the computer would change trading completely.

TRADERS´: Today you do not trade stocks or index-futures any more, do you?

That is right. After some time I recognised that there are too few stocks that move quickly and that you can leverage highly. At least in my opinion. Somehow I liked commodities better. I started trading commodities like silver, soy beans and wheat-futures. Some days I traded forex as well. Today I trade only commodities and forex.

TRADERS´: How did the markets change in the course of your trading career?

I would say it did not change much. Trading is not that much different than in former days. The charts are the same and the patterns are as well. The only thing that has changed is volatility – there are more quick movements today.

TRADERS´: You said that you developed your own, modified strategy for your trading. What does it look like?

Most of the patterns are based on simple structures, on triangles – there is no difference if we talk about head-and-shoulders-, a triple-top- or an ABCD-pattern. But instead of searching all possible charts manually I started to program it. Today I use a self-developed system to search the markets and to find the right patterns.

TRADERS´: If you found a pattern that meets your criteria, how and when do you enter?

Let us take the triple top as an example. My software recognises the development of the third high and sends a signal. Usually, by the book, you would wait for the neck line – that is the line that developed on the level of the two lows between the three tops as a support – is broken. This would confirm the triple top as valid. But if I wait that long, my risk-reward-ratio (RRR) worsens considerably. The reason is that I have to place my stop over the triple top and reasonably so because I need to endure a possible short spike without my stop getting triggered. Therefore I try to enter at or shortly after my assumed triple top, even if it is not confirmed yet. In this way my profit targets are nearer (Figure 2).

TRADERS´: Do you look at volume as well?

Not really. I only look at the volume if there is a considerable divergence of the norm. If I recognise a new record volume on a chart or at least volume near the old record volumes, I look at it more closely. Usually you see high volumes at prominent highs or lows of the market und this context has to be noticed.

TRADERS´: What does your trading day look like?

I try to minimise the trading time. Usually I have my setups prior to the open and I trade during the first 30 to 60 minutes.

Afterwards I answer emails, and do other work. I stay in my positions between three to eight days and therefore I do not need to stare at the market all the time and can do other things – and I can free myself mentally from the market development.

TRADERS´: One last question: Can you summarise your risk- and money management? You talked about scaling out at your profit targets.

I risk 0.5 per cent of my trading capital per trade. You should stay conservative here.

The management of my profit trades goes as follows: I exit my positions in thirds (scaling out) (Figure 2). I sell one third after the trade earned the initial risk (RRR = 1.0). I sell the next third after the trade earned double the initial risk (RRR=2.0) and the rest after it earned the RRR of 3.0.

SUMMARY

Larry Pesavento is the dinosaur among traders. A man with 50 years of trading experience, he exudes the kind of contented calmness in the interview that is seen in few traders and is also matched by his analysis that things have not really changed that much in the markets in the last few decades. This is the sort of opinion that is rarely heard elsewhere. There just is not much that can faze an experienced trader who found his approach long ago and has firmly embraced it ever since. Larry trades his chart patterns as he always has, with the programmed automatic recognition of patterns even tending to reduce the amount of time he has to invest. The upshot is that he calmly puts in half an hour's worth of trading a day only to then pursue other activities (which occasionally include his recreational pursuits). And what can we learn from this? Trading does not have to be hectic if you have found your approach. Quite the contrary: The longer you have been trading, the more calmly you will look at the entire trading business – and maybe even manage to smile at all the fuss that is being made.

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HARRY BOXER

THE SEARCH FOR THE TENBAGGER

Harry Boxer was born in Munich and emigrated to the US with his family as a child. His interest for the stock market started in the 1960s – and this interest is still growing. In addition to his trading he runs the website www.thetechtrader.com. We talked to Harry Boxer about his trading experiences and his trading rules that he has acquired over the decades.

I believe that volume is the key to a good analysis.

➔ TRADERS´: Please tell us about your start in the markets.
At the age of 13 years I got to know an old stock trader by chance. As far as I can remember it was 1962. He drew his charts – as it was usually done in those days – by hand and kept a voluminous chart book. For every stock that he followed he drew the open, the high and the low in the form of a bar chart. The chart book had substantial volume and I was very impressed. He caught my interest because he observed stocks like US Steel or Chrysler. I looked at those stocks from time to time and they rose strongly. I remember very well that US Steel and Chrysler tripled in those days. That was the cue for me to learn as much as possible about technical analysis and to study the markets.

TRADERS´: There were no personal computers available at that time. How did you get access to market data?
I simply went to a broker that I knew and watched the prices on the ticker. This way I learned tape reading. By the way, there were some days when I ditched school to look at the prices. I got my first computer in 1984 and the first programs were Metastock and Telechart.

TRADERS´: When did you start trading and how did it go?
I speculated at the age of 19 years with my savings and traded fearlessly the highflyers among stocks. Those were turbulent times and I did not make a lasting break-through.

TRADERS´: Did you have a day job at first?
Yes, I studied corporate finance and wrote a technical-analysis-newsletter for three brokers in New York. That was at the end of the 60s. During this time I traded part time. Then the so-called "Nixon bear market" followed in the 70s and I earned less and less money with my newsletter. Therefore, I switched jobs and used my network as a head-hunter and placed other people for jobs at big firms.

TRADERS´: How did you experience the time of the New Economy?
Everything went up. I stopped working as a head-hunter and concentrated on trading again. I always only traded my own money on a day- and swing-trading basis and I never managed other people's money. At the same time I worked at the popular portal americainvest.com – but the enterprise went broke in 2001. Finally I founded my own site techtrader.com that I still manage in addition to my trading.

TRADERS´: What are your basic principles and trading strategies?
There are several *(laughs)*. First of all I am convinced that you have to keep everything simple. "Keep it

F1) LONG TRADE MITEK SYSTEMS (MITK)

From the middle of January until the beginning of February 2012 a nice bottom formed and price stabilised above the moving average 50. Harry Boxer bought at the breakout in February under high volume. The trade was profitable quickly and on the next trading day it went up as well.
Source: www.tradesignalonline.com

Simple, Stupid"! Furthermore you should not change your method immediately if it is not working that good over a period of time. "If it is not broken, do not fix it." Drawdowns are common in this business. Concerning techniques, I believe that volume is the key to a good analysis. I use volume mainly in combination with simple candlestick-analysis as well as instruments of technical analysis like trend lines, support/resistance, moving averages, gaps and so on. I especially like to use patterns that I analyse in combination with volume.

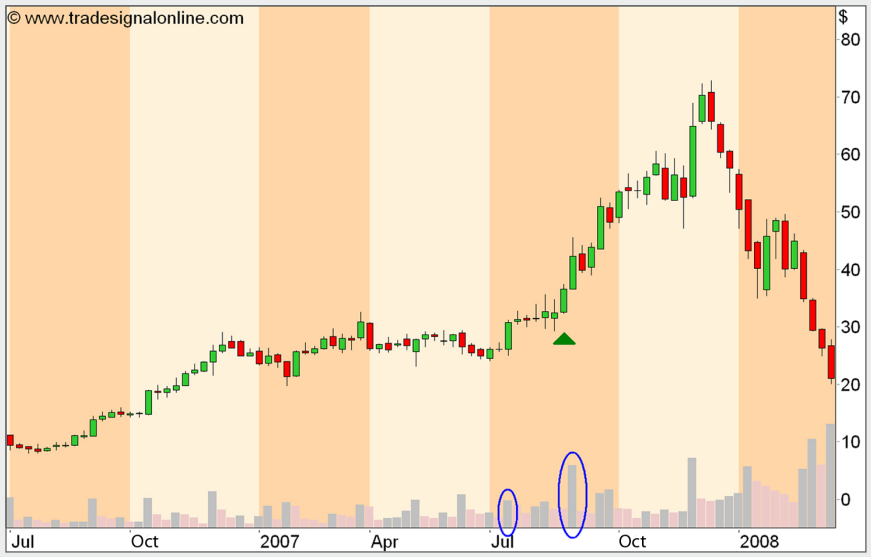
TRADERS´: Can you explain the correlation between price and volume more precisely?
In general, volume should confirm the movement that I expect based on a certain setup. It is not enough that price breaks out. The prior basis has to be big enough and the volume at the breakout should be significantly

I am convinced that you have to keep everything simple.

higher than before. What is essential: the bigger the previous basis the stronger the following breakout. I also look at some important moving averages – 10, 21 and 50. A good example of one of my trades is the stock Mitek Systems (MITK) (Figure 1). From the middle of January until the beginning of February 2012 a good bottom was established and the price stabilised above the Moving Average 50. I bought at the breakout in February under high volume. The trade was profitable quickly and on the next trading day it went up as well.

TRADERS´: Do you trade other instruments than stocks?

F2) WAITING FOR HIGH VOLUME



You can see the weekly chart of Sigma Designs (SIGM). The stock built a base in the first half of the year. The first try of a breakout started at moderate volume early in July (see first mark) 2007 and therefore Harry Boxer was not too sure about the whole setup. At the end of August the stock increased under high volume which confirmed the breakout. Now all criteria for a long trade were met. Source: www.tradesignalonline.com

F3) UP-TREND LINE AFTER UP-GAP

This is Harry Boxer's favourite setup. A stock builds an up-gap under high volume (see mark), a dynamic uptrend follows right along the trend line. Apple increased after the gap about 45 per cent until only the high in April 2012. Source: www.tradesignalonline.com

I traded index options in former days, but today I trade mainly stocks and leveraged Exchange Traded Funds (ETFs).

TRADERS´: Can you tell us about some of your especially successful trades?
The best trade that I have ever made was in 2000 with the stock of DNA. I cannot find the chart anymore; maybe it has disappeared from the exchange. But I do remember the trade well and can tell you about it. The stock increased steadily from 11 to 17 USD and I bought. Within two weeks it skyrocketed to 29 USD. The market was bullish and I doubled my position. Another four weeks later the stock was at 47 USD – and I doubled again! Today anyone would call this crazy, but in those days the market was in an unbelievably dynamic uptrend. My charting projection showed, that the stock could increase to 120 USD. Unbelievable but true – that's what happened. I got into greed-mode and increased my profit target to 125 USD. This price was never reached and the stock fell. I had a stop-loss at 93 USD and was stopped out.

TRADERS´: You want to be a trader during these times. Do you have an example about the bull market phases of the previous years?
Another nice trade was the stock of Sigma Designs (SIGM) (Figure 2) in 2007. It established a very solid bottom in the first half of the year. The first breakout was under moderate volume and therefore I was not too sure about the whole setup. At the end of August it increased under high volume which confirmed the breakout and I gained a very big profit.

TRADERS´: You search for the very big movements. How do you find proper candidates?
Yes, right. I call it "the search for the tenbagger", which means a stock with the potential to increase tenfold. I have identified three criteria that have to be fulfiled: 1) The stock has to build dynamically higher highs under high volume, 2) it has to show fast breakouts off an interim basis-correction and 3) it has to trend significantly on a weekly chart. You can add several – fundamental – criteria as well but these three can always be observed.

TRADERS´: How do you recognise your exit likewise a reversal?
It is not the point to recognise when price itself will change. You can never know this. But what we can recognise is when the characteristics of the price move change as a cue for the trend. Volume is important here as well. If the market corrects under lower average volume than the previous increase, the trend is still intact. In contrast it is alarming if the volume is above average during a correction. Most of the times I will sell at least a part of my position if prices increase afterwards under low volume. I am flat if the lows of the first correction are reached at the latest.

You need at least 25,000 USD for intraday trading in the US.

TRADERS´: Do you trade short term as well, for example intraday?
Yes, I even look at the 1-minute chart partly. It all depends if there is a good opportunity and if I have time for this intense observation of the market and for the management of the positions. In general the strongest and the weakest stocks are the best for intraday trading. I like daytrading stocks after news, for example after gaps against the previous day. I act pro-cyclically and buy for example, after an up-gap if there is a correction after the open. It is important to take a look at the premarket price movements because maybe important supports or resistances develop.

TRADERS´: What entries do you trade intraday?
I use simple technical methods like resistance and support, prior highs and lows and price levels where high volume came up previously. Most of the time I exit in steps – first I lock some profit and then I try to take the big movement.

TRADERS´: In your opinion – what is the most dependable of all patterns that you use?
The trend channel upwards and the increasing trend line after an up-gap. A nice example is the stock Apple (AAPL) after the gap in January (Figure 3). The trend after the gap increased even sharper.

TRADERS´: What would you recommend to new traders that want to try daytrading?
First of all you need at least 25,000 USD for intraday trading in the US. If you want to trade effectively, you need at least double this amount. In Europe you can do it with much less trading capital and therefore losses are not as painful.

I would recommend that you should not have more than three to five positions at one time. 30 per cent of the money I would use for short term trading opportunities. If something occurs you do not have to close another trade.

TRADERS´: Can you tell us which mistake is the one that you find most typical in trading?
In addition to all the standard mistakes which every experienced trader should know (no stop-losses and so on) there is one mistake that many traders make but is not too well known: Many traders know too much about the fundamentals of the company they trade and therefore they cannot follow their technical trading rules. But the latter determine the risk/reward-ratio and their drawdowns and it is the first priority to control them. If you do not follow technical trading rules you will trade emotionally and that may cost a lot of money.

TRADERS´: Finally, do you have any advice for our readers?
My own experience showed me that I have to be bullish if the market environment is especially frightened. In such an environment I would even rather go long than short against my emotions. The same goes for euphoric phases.

In both extreme phases the risk/reward-ratio is considerably high for a countertrend trend. And finally I can give all traders one bit of advice: If you want to succeed as a trader it is not enough to analyse and trade well. You have to grow a thick skin! And you have to have nerves of steel! Good trading!

SUMMARY

Harry Boxer is an old hand at stock-market trading. He has lived through many market cycles and in between has worked other jobs in unprofitable periods. Invariably, his business acumen has helped him along, as it did when he turned the marketing of his newsletters into a lucrative source of income. At the same time, Harry was always very much around when it was "raining money" on the stock market, as was the case during the New Economy price bubble up to the year 2000. After all those extremes he experienced, it is hardly surprising that the daily fluctuations of individual stocks impact him less these days. He continues to look for those stocks that allow him to make big money – stocks that have the potential to increase tenfold in value. The three criteria for recognising such shares are 1) new highs at high volume, 2) fast breakouts from consolidations and 3) a trend channel on the weekly chart.

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SCOTT ANDREWS

THE PRICE GAP STATISTICIAN

Mr Scott Andrews is a professional trader and founder of the website MasterTheGap.com. Arguably, there are hardly any traders who have analysed gaps in as much detail as Mr Andrews has. He has painstakingly calculated extensive statistics from which he can determine the daily probabilities of different scenarios. With this expertise, he is a much sought-after speaker at conferences and trading fairs. Prior to his career as a trader, he was co-founder of the company SciQuest, which went public in 1999. Mr Andrews has an MBA from the University of North Carolina and is a graduate of the US Military Academy.

➔ TRADERS´: Mr. Andrews, how did you get into trading after attending a military academy?
As co-founder of a public company, I became fascinated with the ebbs and flows of our stock price and it's disconnect from the fundamentals. When my company went public in 1999, all the stocks were overvalued from a fundamental perspective. I was able to see that clearly from the high level at which our own stocks were valued. I was therefore convinced that it is impossible to argue along purely fundamental lines.

I follow my plan and that's all.

Technical criteria are obviously much more important – especially during periods of exaggeration in the markets.

TRADERS´: Did you continue to follow the stock market?
Yes. After stepping down as CEO, I decided to learn all I could and spent a lot of money learning about option trading and how to time the markets. I actually had a very profitable first year and increased the leverage I used for my trading. But that strategy did not work anymore and I lost my previous profits again. The confidence I had in my trading skills was destroyed, although I had "only" fallen back to the break-even

F1) FADE THE GAP

This chart shows how Scott trades in the case of a gap-closing setup if it promises a trading advantage according to his statistics. What you can see here represents the S&P 500 futures. The entry is made right at the opening and the exit at the previous day's closing price. The stop distance is usually 30 per cent of the 5-day ATR. Source: www.TradeStation.com

F2) FOLLOWING THE GAP

This serves as the opposite of Figure 1. That procyclical strategy is very rarely made use of. The entry is made right at the opening and the exit at a pre-defined price target or the closing price of the day.
Source: www.TradeStation.com

point and had not ended up in the red. At that point I decided to take a long break.

The stops are more important than the proper exit technique.

TRADERS´: What did you decide about your trading?
I started thinking about my own behaviour. I noticed that I like trading actively, which can sometimes be a weakness when it results in overtrading. I needed a strategy that suited me, with regular signals that still left me plenty of room and spare time. Because I very much think mathematically, the whole thing had to be as easily quantifiable as possible. And that's how I hit upon the idea of trading price gaps since it was this approach that made all that possible.

TRADERS´: How exactly do you proceed in your analysis?
Well, it's a lot of work *(laughs)*. Among other things, I've retrieved the S&P 500, Dow Jones and NASDAQ data from Yahoo Finance and imported everything into Excel, where I can make my calculations. I look out for historical patterns and seasonal effects in the gap size with the aim of deriving reliable statistics from them. To identify all that, I make countless calculations in Excel and create various tables.

TRADERS´: What are the main findings of your work?
About 70 per cent of all gaps are closed within a day. More than 80 per cent of all gaps are closed when at least the 50 per cent mark of the movement is reached. In gaps which close completely, prices tend to move a little farther than the gap edge. So there often is an "overshoot" while price gaps are closing. This can be observed particularly in small gaps.

TRADERS´: How can traders use these findings?
Especially with small gaps, only half the position should be smoothed during that closing since, on average, the overshoot makes it possible for more profits to be made. However, the stops are more important than the proper exit technique. After all, some gaps are not closed, and here prices may sometimes move considerably farther in the direction of the price gap. This is something that traders should always keep in mind.

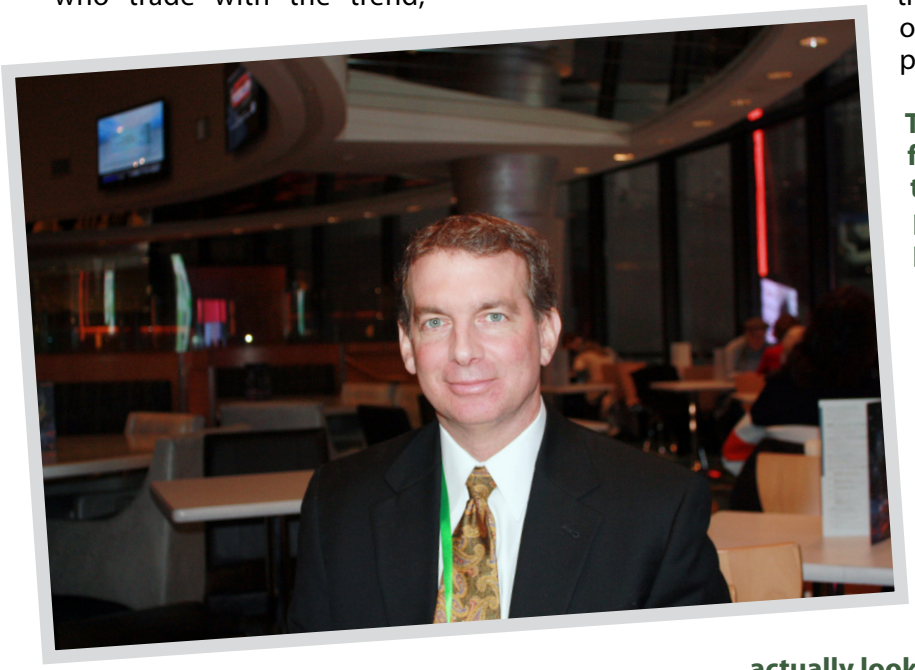
TRADERS´: What is your strategy in concrete terms?
Once I have identified a tradable gap, which according to my statistics promises good earnings, I open my trade as a market order right at the open. I usually bet on the closing of gaps. Only in exceptional

T1) GAP STATISTICS FOR S&P 500 FUTURES

	Market Condition				Patterns				Seasonality				Weighted Average			
Gap Zone℠	Gap Fill		Extended		Gap Fill		Extended		Gap Fill		Extended		Gap Fill		Extended	
	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF	Win %	PF
U-H	48 %	0.87	39 %	0.85	59 %	1.56	45 %	1.34	69 %	1.87	60 %	1.90	60 %	1.47	50 %	1.42
High (H) 1363.75																
U-HC	67 %	1.07	54 %	1.22	73 %	1.17	55 %	0.90	79 %	1.90	48%	0.92	73 %	1.46	51 %	1.03
Close (C) 1363.25																
U-CO	66 %	0.86	51 %	0.77	63 %	1.36	37 %	0.90	70 %	1.64	54 %	1.37	67 %	1.34	49 %	1.08
Open (O) 1354.75																
U-OL	43 %	0.49	38 %	0.58	25 %	0.30	25 %	0.38	58 %	1.48	25 %	0.84	46 %	0.79	32 %	0.64
Low (L) 1350.25																
U-L	55 %	1.36	50 %	1.51	100 %	10.00	100 %	10.00	64 %	2.43	57 %	2.43	61 %	2.26	56 %	2.34
ATR	10.55				Stop: 5.00				Ext. Target: 1.58							

This table shows the ten year historical results of three different systems for fading the opening gap in the E-mini S&P Futures (ES) for a recent day based on the opening price zone (which is based on the prior session open, high, low and close). The data assumes a five point stop and shows results for targeting gap fill and an extended target equal to 1.5 points beyond gap fill. PF = Profit Factor, U = Prior day was an up day, O = Open, H = High, L = Low, C = Close. Source: www.MasterTheGap.com

situations do I trade pro-cyclically in the direction of the gap. Let us stick to the closing strategy then. In the case of an upward gap, I go short, betting on the closing of the gap. So I trade, as it were, against the trend that showed upwards overnight. The advantage of counter-cyclical trading at this point is that, for all practical purposes, slippage does not occur – by the way, this is almost always the case with counter-trend strategies. By contrast, those who trade with the trend,



usually have to accept a slightly worse entry price to jump on the bandwagon. As a rule, the stop is 30 per cent away from the current Average True Range (ATR), measured over five trading days. My price target is to close the gap. For small gaps or particular situations I close the trade gradually, for example, as just described, while closing small gaps.

TRADERS´: How do you decide whether or not a special situation exists?

This is where a discretionary component comes in. In terms of gaps, I've thoroughly tested everything that I think is reasonable. Still, I do let my experience or my feelings in on my decision a little bit.

TRADERS´: How many trades a week do you make?

On average, about two. My stats for 2011 look something like this: I traded 111 gaps, of which 73 trades were winners, three break-even ones and the rest losers. My overall performance for the year was 24 per cent.

TRADERS´: Those are very precise figures. Not all traders can report their statistics like that. What position sizes did you trade for this performance?

I risk between two and four per cent of my trading capital per trade, depending on the particularities of each day. Some of these features I have also carefully examined and prepared statistics on them, which is what I call "additional factors". If these additional factors come down in favour of the trade, I'm prepared to take more risk in terms of a larger position.

TRADERS´: How far back do you actually look at your statistics?

Normally, about ten years. Actually, I use a rolling time window that always looks back ten years. So each new year causes the oldest year to be removed from the data.

TRADERS´: Why ten years?

That's a good compromise between the relevance of the data, i.e. their being current, and a sufficiently large sample for statistical significance to be achieved. When I look back 30 years, I have data from the 1980s that by now doesn't mean anything and just dilute my results. And when I look back only two or three years, the results are not consistent enough.

TRADERS´: How meaningful do you think are your results?

I would say roughly that the evaluation of historical data adds value to my trading in two-thirds of the cases, and in one third of the cases it does not. This means that the whole effort makes it worth my while.

TRADERS´: Have you ever had very large gains or losses using this strategy?

No, I haven't. Or at least not as large as you may be familiar with from other interviews. I follow my plan and that's all. My stops limit my losses, and my profit targets book my profits. The latter makes sense, though, with a gap strategy like mine because I would not be better off with trailing stops. As a result, there will then be neither extreme winners nor extreme losers. So I won't have any sleepless nights on account of any positions.

SUMMARY

Scott Andrews is one of the traders who recognised early that using an analytical method can lead to success sooner. Those who never commit themselves to a particular trading style will have major problems being able to trade consistently profitably. As a result of his company going public, Scott had a large amount of starting capital and knew from the beginning that he had better not "gamble" considering how much money was at stake. His analytical thinking and professional approach were a good basis for developing his trading approach of using comprehensive statistical analyses of price gaps for his trading. It was simply the style that suited him best – a very important and often underestimated criterion. Depending on what his own background is, a trader ultimately needs to find his own style. That is also why there is no such thing as the "one" formula that can help everybody to be successful on the stock market. It must be "your" system that you can trust and adhere to even in difficult times. If you adopt the style and philosophy of someone else's trading and that does not suit your personality, you will hardly be able to be successful in the long term – not even if the other trader is profitable with this approach.

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PETER AND SERGE MILMAN

FROM PROPRIETARY TRADING TO MANAGING A HEDGE FUND

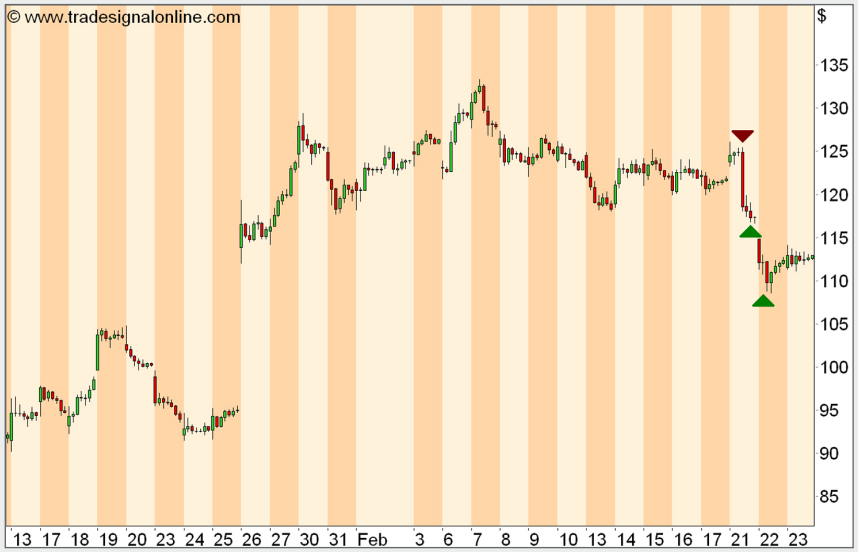
Long time TRADERS´ readers will probably remember the interview with Peter Milman that appeared in the 06/2010 issue. At that time, he traded together with his brother Serge and other proprietary traders on the trading floor of Lightspeed Trading located on Madison Avenue in New York. This year's Traders Expo, held in the world's largest financial centre, gave us the opportunity to pay a visit to the Milmans. Quite a few things have happened since, but read on for yourself!

➔ Prior to the interview, we did a bit of research to prepare for the meeting. In 2011, Peter and Serge Milman founded their own hedge fund, renting office space on the 12th floor of an office building on Broadway, one of New York's most famous streets. Serge Milman, who has more trading experience than everybody else in the company, manages the fund, which also includes his brother and two other traders. We had arranged to meet around noon which is when Peter shows up to welcome us.

Trading institutionally is something completely different.

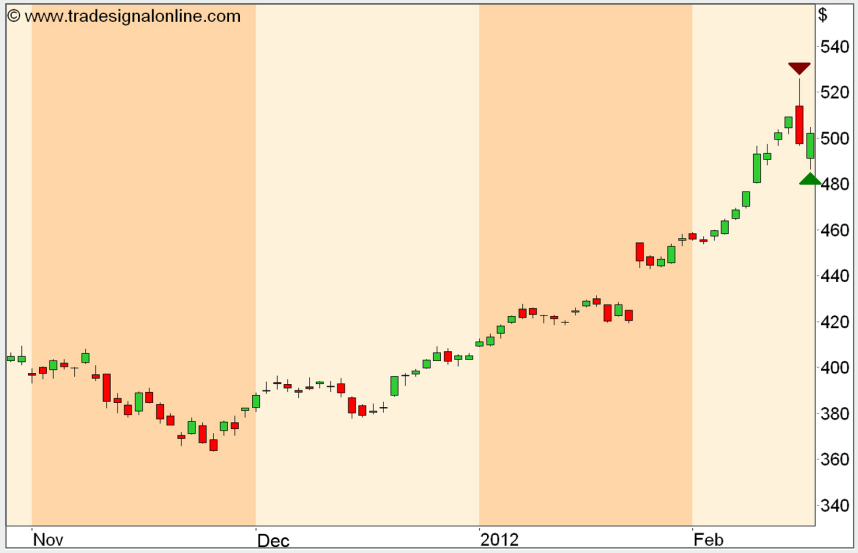
TRADERS´: Hi Peter! Glad to see that we have a chance to do this interview. Could you briefly tell us first what has been happening since 2010 as far as your trading is concerned?
Peter Milman: Essentially, our trading style has remained the same. However, there are significant differences in terms of our operations. Trading institutionally is something completely different. As a private trader, you are exclusively concerned with trading per se but in the institutional arena you are also responsible for your client funds and therefore need to tend to trade more conservatively.

F1) SHORT TRADE AT NETFLIX (NFLX)



The day before the interview, on 21st February 2012, Peter and Serge Milman shorted Netflix (see red mark). As early as the same day, they took a portion of the profits and another portion (green marks) on the morning of 22nd February. Source: www.tradesignalonline.com

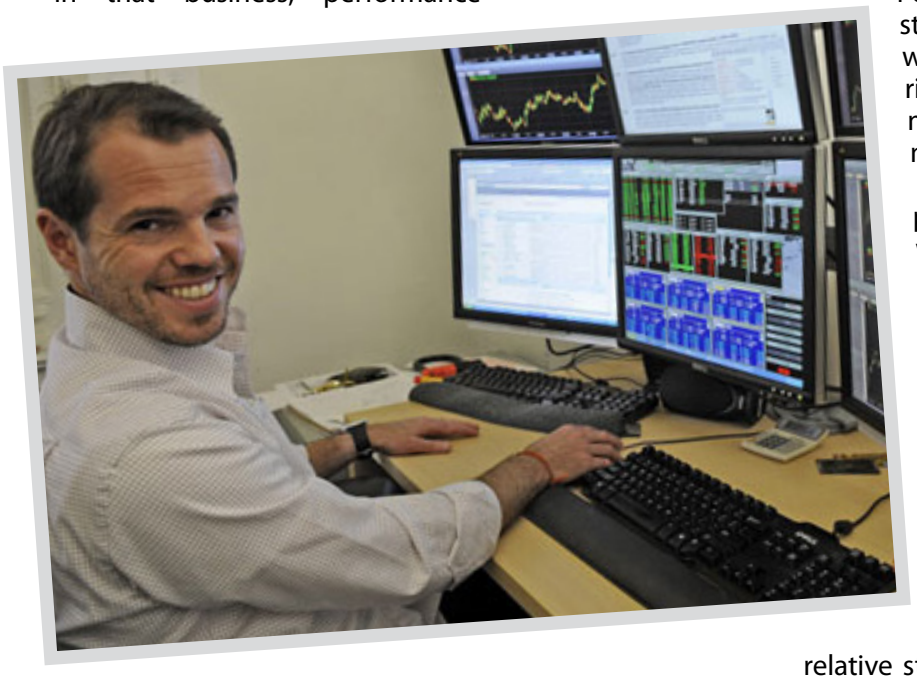
F2) SHORT TRADE AT APPLE (AAPL)



Apple had risen from 420 to around 520 dollars, and Serge Milman expected a long overdue correction. He bought puts with a strike price of 500 just before maturity at 30 to 40 cents (see red mark). The actual onset of the correction caused the value of the options to increase significantly and he was able to sell them again at prices ranging from seven to twelve dollars (see green mark). Source: www.tradesignalonline.com

TRADERS´: Can you tell us how much money is currently managed by Milman Capital?
Peter Milman: More than ten million dollars, including our own money and the funds from our first few clients. In terms of size we are quite clearly a small start-up fund in its infancy but we would definitely like to grow much further. Our strategies are scalable since we only trade liquid stocks. We could easily manage $100 million without running into major problems with position sizes and market impact.

TRADERS´: It would be interesting to know how your fund is set up. Can you tell us something about that?
Peter Milman: We have a total of four traders, each of whom sees the whole thing as a business. And in that business, performance is everything. We have an annual management fee of two per cent and a 20 per cent performance fee which is charged on profits. If there are losses first, we must make up the losses and then generate profits before we can charge the performance fee (a so-called high water mark). Consequently, we have the 2/20 structure which is typical of hedge funds. Our prime broker, who verifies and finalises the trades, is Goldman Sachs, and for our accounting needs we have hired a company specialising in that field.



It's all about finding the stocks that are currently "hot".

TRADERS´: Has your trading changed since you started trading institutionally?
Peter Milman: In essence, our trading style has remained the same. Of course, we now need to look at a lot of additional risk parameters and to adjust our trades more closely to the principles of portfolio management.

This causes the macro-perspective to play more of a role, which means that we tend to hold our positions longer. Beyond that, however, the size of my positions continues to depend on how convinced I am of the respective setup. If I have many reasons coming down in favour of a trade, I'm still very aggressive.

TRADERS´: Can you briefly describe which concepts you use?
Peter Milman: Most of my trading is based on technical features. This means that I mainly rely on the relative strength or weakness of shares to build long or short positions. In addition, I pay a lot of attention to sentiment or market psychology. On average, a typical swing trade lasts about four to five days. A few positions we manage together from the macro-perspective, i.e. usually longer-term following corporate and business news.

Here we are building a core position, around which we then do our trading in our daily operations depending on market conditions, i.e. slightly expanding or reducing our position. If things get really uncomfortable on the market, we like to put on quick hedge positions in futures to cushion the worst. This ability to respond rapidly to violent events is a real advantage.

We briefly interrupt the interview since Peter Milman has an important appointment with an investor. Meanwhile, Serge Milman is back from his lunch break, so we can continue the interview with him.

TRADERS´: Can you give us some recent examples of winning and losing trades?
Serge Milman: What comes to mind immediately is an Apple option trade that achieved a magnificent 1300 per cent return on the capital invested (Figure 2). The stock had soared from 420 to around 520 dollars, and I expected a brief correction at least. I therefore bought puts with a strike price of 500 dollars, which only had another two or three days left before maturity, paying 30 to 40 cents. The plan panned out and I was able to gradually resell the options at prices ranging from seven to twelve dollars. As for the losers, I have to admit that I had previously launched a short attempt at Apple, which did not pan out though. Prior to the numbers being released, I had simply opened an all-or-nothing put position and lost the capital invested when the stock went up. Another loser was the stock LEN (Figure 3), which I shorted at around 20 dollars and had to close out at the new highs of around 21 dollars.

TRADERS´: It sounds as though you would particularly like to trade with options.
Serge Milman: Yes, that is true, especially in the short term. In the case of options, I have – figuratively speaking – an "automatic stop" which intervenes at the loss of my capital invested in the trade. I trade options that are out of the money and therefore often do not cost much. Many of these trades suffer a total loss, that is minus 100 per cent. But when I win, I do so big time, as is shown by the example of Apple. The upshot is that I get to recoup all my losses and still make a significant profit.

TRADERS´: The "automatic stop" then is the advantage of options?
Serge Milman: The advantage of our way of trading options is that you can never lose more than is being risked. We never write naked calls or puts. So if there

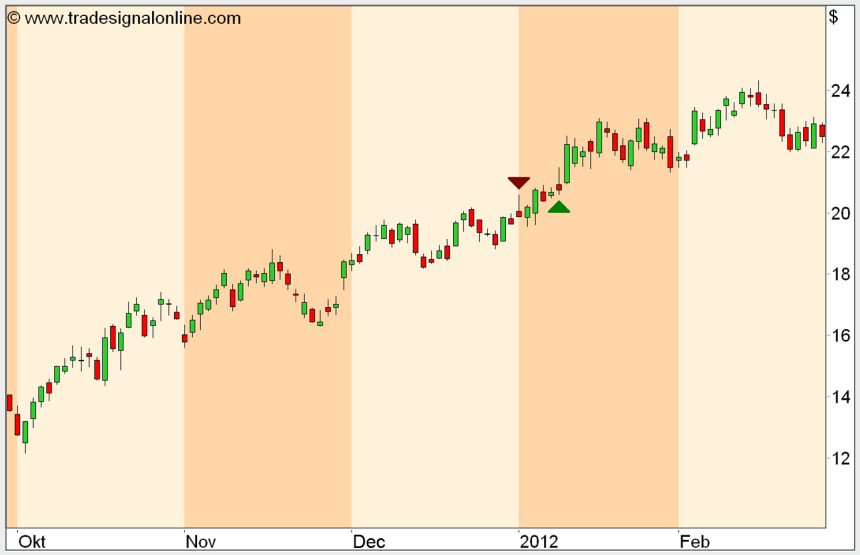
My recommendation to anyone is to exit gradually with increasing profits.

are large price gaps against my trades, I cannot lose more than my risk.

A long call with a strike price of $100 is worth exactly the same at maturity at a share price of the underlying value of $50 as it is at $95 – namely nothing. In the stock itself, however, this accounts for a massive difference that needs to be taken into account in risk management.

TRADERS´: Do you open more short positions than long ones?
Serge Milman: Not really. It was probably more of a coincidence that there were so many shorts on my

F3) LOSER AT LENNAR CORPORATION (LEN)



The Milmans went short at about $20 (see red mark), but had to close the position in the red at new highs of around 21 dollars (see green mark).
Source: www.tradesignalonline.com

F4) EXCESS VOLATILITY AT BROADVISION (BVSN)

Typically, volatility rises when prices fall and decreases when prices rise. Sometimes, though, prices may also rise very rapidly resulting in volatility increasing as well – as can be seen here at BVSN. Especially with options transactions, it is extremely important to keep an eye on volatility since the latter is an essential factor in the composition an option price. Source: www.tradesignalonline.com

list, and these were all short-term trading positions. Longer-term, we have mostly long positions. One example was the stock of Magicjack Vocaltec (CALL), which we bought in November 2011 and exited only recently. The position did very well.

TRADERS´: Can you tell us how you become aware of such interesting stocks?
Serge Milman: We use scanners such as, MadScan that search the entire stock universe according to our filter criteria and eventually "spit out" the most interesting stocks. I especially like the search for stocks that are approaching their 52-week highs. Sometimes those include stocks that I have never heard of, but that is beside the point. It is all about finding the stocks that are currently "hot". Otherwise, I use Twitter since the important news is often more readily available there than it is from news agencies. I can just enter my stock's symbol and will then receive the updates accordingly.

TRADERS´: Finally, could you please tell us what the criteria for your trades are? When do you enter, and when do you not?
Serge Milman: When I have found a reasonably good setup, it is primarily a question of whether there is a risk/reward ratio of at least 1:2. If not, I will not enter a trade. As for the exit, my recommendation to anyone is to exit gradually with increasing profits. There are people who see this differently and do not want to exit too soon, but I believe in the old stock-market adage "You never go broke taking profits".

TRADERS´: Thank you very much for your time and for the interesting interview!

SUMMARY

Peter and Serge Milman have achieved every novice trader's dream: They have been very successful in proprietary trading, have developed a network in the financial industry and later founded their own hedge fund. In addition, they have mastered one of the most difficult tasks: collecting investors' money. And the two have distinguished themselves by continuing to set themselves new goals – true to the motto: "The Sky's the Limit." In doing so, they have made precise calculations of the cost of their ideas before working on their vision. Without these qualities, they would probably have never made it so far. Most importantly, though, the two are confident of themselves and of their trading style, which is a sine qua non for long-term trading success. They were not afraid to try something new and use the money earned in long years of hard proprietary trading to lay the foundation for a hedge fund. Overall, an impressive story whose book everyone can take a leaf out of.

Read in the TRADERS´ October issue

27th September

COVERSTORY

Intermarket Analyses – Understanding the Interrelations of Markets
The core of intermarket analysis is the examination of the relation of different asset classes among each other. Thus, market participants can recognize in which economic cycle the market is. David Pieper shows how the intermarket principle works and how the traditional relations have changed over the years.

PEOPLE

Adrian Manz
Adrian Manz is trader, book author, and co-founder of www.TraderInsight.com. He has been trading stocks since 1998, earning his living that way. With his trading style, which is based on statistical and technical analysis, he achieved a monthly return of 4.75 per cent from 2006 to 2011.

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JOHN NETTO

THE NETWORK TRADER

John Netto developed an interest in the financial markets early on. However, he went into the military for a few years first before he got into professional trading. Today he trades mainly futures and options on a short-term basis. His approach is based on a fundamental macro-analysis and he adds technical features like correlations. Triggers from his large network of traders and other finance professionals that he has built over the last years are often essential for his trades. He published his book “One Shot One Kill Trading” in 2004.

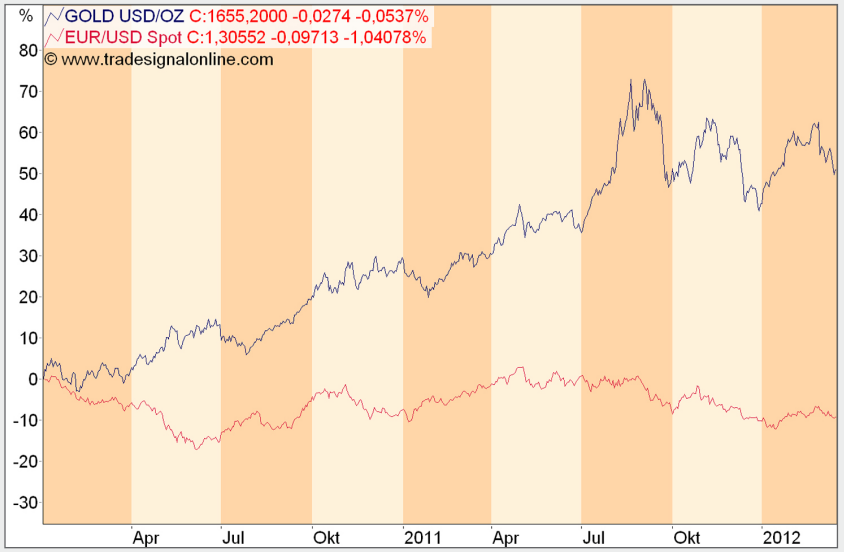
➔ TRADERS´: You became interested in the markets early on. How come?
Well, when I was eight years old I made small sport bets with friends. When I turned twelve I saw "Wall Street" and that really got me. I started to acquire knowledge. For example I read books about options – for a child of my age a little unusual *(laughs)*. Later, when I was in high school, I read newspapers like the Investor Business Daily and the Wall Street Journal. I was not really interested in school and my grades were accordingly bad.

TRADERS´: You did know a lot about the stock market and trading early on. Could you use it directly with your trading?
Unfortunately I could not start trading full time right after high school. At the age of 18 I enlisted in the military. I started trading part time in 1998. A year later I worked at a trading firm in Seattle and in 2002 I ended my military career.

TRADERS´: How would you sum up your trading?
I see myself as a liquidity trader who takes advantage of short-term trading opportunities. That means I buy weakness in an increasing market and sell strength in a decreasing market – I offer liquidity if the situation calls for it and I can expect a profit from it.

TRADERS´: Which markets and which trading strategies do you use?
I have a macro approach that includes more or less all markets: stock market indices, currencies, bonds, volatility. All of those can be traded profitably using futures.

F1) LONG GOLD VS. SHORT EURO MACRO-TRADE



The macro-trend long Gold vs. short Euro has been lasting for about two years now and it can be traded as a spread (as of February 2012). There are a lot of possibilities short term to increase or decrease the position around the key investment.
Source: www.tradesignalonline.com

F2) NASDAQ100 LONG VS. S&P 500 SHORT MACRO TRADE

There is a macro trend Nasdaq100 long vs. S&P500 short (as of February 2012). Here as well you can increase or decrease the position according to short-term opportunities. As this is just an example, similar macro trends will appear time and again. The only thing you have to do is keeping your eyes peeled.
Source: www.tradesignalonline.com

TRADERS´: You analyse the macroeconomic context and educe short term trading opportunities from it. How does this work?
I have a big network of professional folks with whom I always keep in touch. I live in New York and Las Vegas and I am travelling a lot – and therefore I talk to a lot of great people and have insightful conversations. It is a steady flow of information and I draw my conclusions from it. You can say that I am always hyped up. The combination of all of this results in my trades that are highly discretionary and that do not fit into any mechanical system.

TRADERS´: So you develop a feeling for the right opportunity?
Yes, that is about it. The key is to interpret the input of information in combination with the personal experience and then you have to analyse the arguments for or against a trade.

Sometimes I look at technical tools like Fibonacci Relations, Candlestick formations or support and resistance. The combination of it all leads to my trades which I enter fast but exit fast as well.

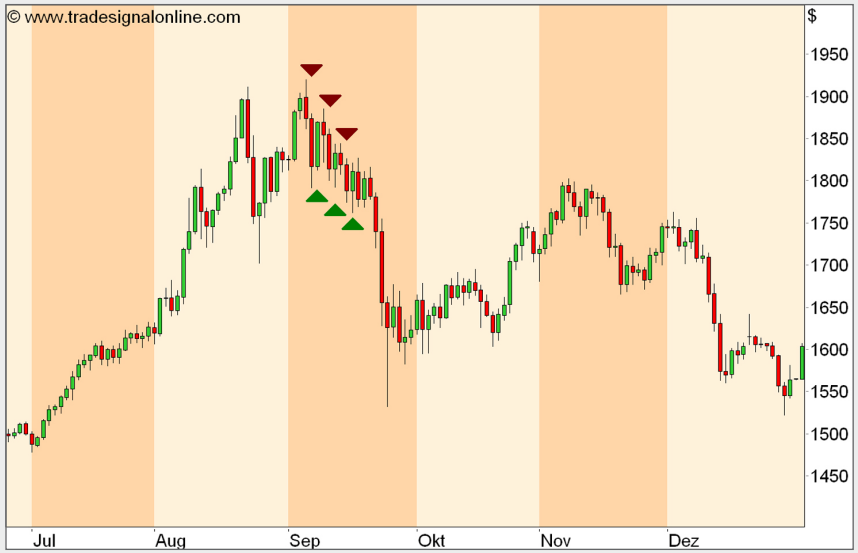
TRADERS´: This means that you have a very high number of trades.
Yes, that is right. Besides, I believe in the theory that you better take more trades, not less. Most other traders will tell you the exact opposite and most of the time it is right – but not with my approach. I am always trading several small positions and this gives me the "feeling" for the right trading that I explained above. Every market has its own specialities in the movement and everything changes steadily. I always stay in the flow of the markets because I trade so much. Trading is a bit like learning to dance – you have to stay involved to get the right feeling.

TRADERS´: How do you handle the switch between the time frames if you break down the long term macro analysis to the intraday trades?
I can explain this with an example. I have a macro scenario Long Gold and Short Euro that started two

F3) S&P 500 INTRADAY TRADE

On the 3rd of February 2012 John Netto was short the S&P500 and the USD/JPY. After the nonfarm-payrolls were reported both positions were stopped out. The momentum was high and Netto reversed his position in the S&P to long. Source: www.tradesignalonline.com

F4) WHIPSAW MARKET IN GOLD



In September 2011 John Netto lost at some short-term short Gold trades, because he was stopped out at up-reversals time and again.
Source: www.tradesignalonline.com

years ago. I trade this position as a spread, which means that it is a combined trade with a long position in Gold and a short position in the Euro (Figure 1). If this spread-trend, that is assumed to stay

valid, comes apart at the seams, I trade the re-entering to the trend as long as the general market environment does not change anything at the primary trade setup. This trend has been intact for two years now and gave nice short term opportunities – I trade those around my long-term position and increase or decrease it according to the market situation.

TRADERS´: Do you have another example?

Yes, of course. Another macro trend that is currently valid in my opinion is the spread between the Nasdaq and the S&P 500.

Technology stocks have developed very well in the past and that is what I look for. This means long Nasdaq and short S&P 500 (Figure 2). I have three to five positions at the same time therefore I have good risk diversification for several setups.

TRADERS´: Which factors are the most important for successful trading?

I think the most important factors are the objective analysis of the situation, a considerate position size and knowledge of the counterparty risk. Especially the latter was not recognised in the past but has earned a new meaning during the financial crisis.

TRADERS´: How do you manage your risk?

I have hard stops in the market for all the bigger positions. With the other positions I manage the risk with the increasing or decreasing of my position size during the holding period depending on market development. Flexibility and adaptability are especially important.

TRADERS´: How do you know if the market conditions are good and if you should start entering a position?

My experience and my market feeling tell me. Another objective criterion is that the trade should earn a profit quickly. That gives me trust in the position and I can increase the position on pull-backs. If a macro-trend develops I start trading around the key investment.

TRADERS´: How would you compare trading to other disciplines?

Trading and poker have many things in common. I like to play in Las Vegas and I succeed time and again in getting through laydowns if I recognise that the probabilities are against me. You have to throw away a good hand if it is afforded by the situation. Trading is similar. Sometimes the best setup goes wrong and you have to exit the market at your stop-loss without hesitation.

TRADERS´: Where are the differences between poker and trading?

The good thing about trading is that you can choose the "table". There are a lot of pros at poker and therefore the realistic chances at tournaments to gain big are small. That is the same in trading the S&P 500 future where the big guys are. It is very difficult to earn profits consistently. Tables with amateurs are more interesting.

In trading this is for example, the gold market where amateurs tried to earn a profit in the past and where volatility is high.

TRADERS´: Which characteristics should a trader have to be successful?

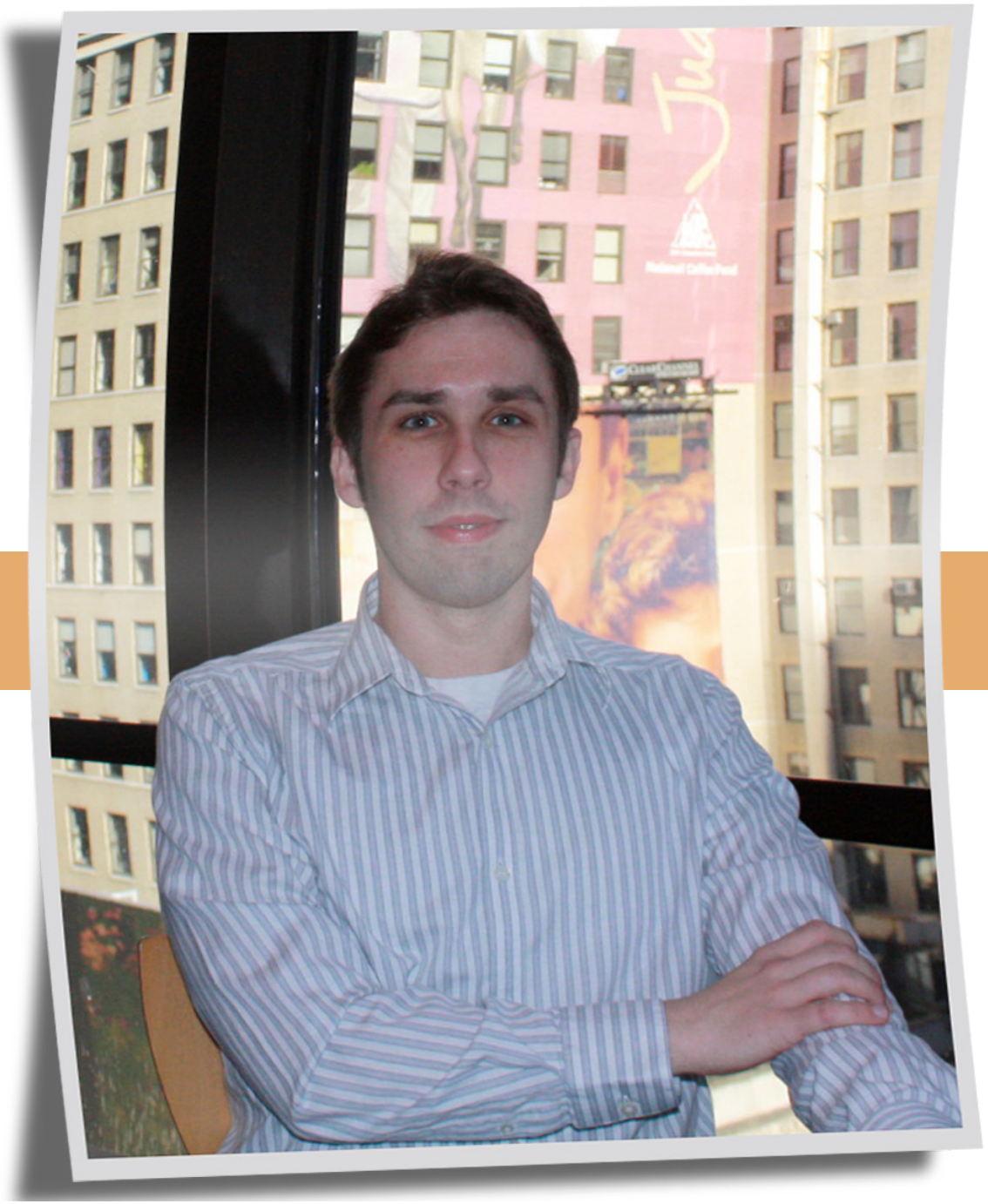
I think you have to be disciplined to exit trades as I mentioned already.

I have learned discipline in the military and it is reflected in my every day life. I do not drink. I do not smoke. I do a lot of sports, especially those kinds of sport where coordination and balance is important – for example boxing and salsa. You have to be able to control yourself to be able to control your trading.

TRADERS´: A very good closing comment. Thanks a lot for the interview.

SUMMARY

John Netto is an energetic and highly focused trader. During the interview, there was hardly a quiet moment. The phone kept ringing, and he mentioned countless other appointments on the same day. The network of traders and fund managers he has developed certainly gives him an edge in the markets. The fact that he is constantly present, his open "test" positions and the continuous input from reliable sources keep him up to date on market conditions. These partly objective, but arguably largely perceived sentiment shifts cause him to build up or reduce his positions. At the same time, the high discretionary proportion of his trading makes it difficult to provide a detailed explanation of his approach that is readily understood – after all, there is a wealth of experience behind the approach that traders can ultimately only acquire after years of active trading.



CITY: Huntsville

INTERESTS: Politics

TRADING STYLE: Intraday- and Swing Trading

WEBSITE: www.AfraidToTrade.com

COREY ROSENBLOOM

HOW TO MASTER TRADING PSYCHOLOGY

Corey Rosenbloom has a masters in political science and a bachelors in psychology and has been trading the markets for about ten years now. The addiction to the markets started with the bear market in the years 2001 and 2002. After some bad trades he decided to learn as much about trading as possible. He had to overcome his fear of risk of each trade as well as his need for perfection. Today he runs the website afraidtotrade.com where he supports traders with similar psychological difficulties.

➔ TRADERS´: How did you get in touch with the stock market for the first time?

My father always said that stocks are important and that it is a big advantage to know the ropes. He looked at fundamental facts in the sense of Warren Buffett and did not invest in technology stocks during the new-economy-bubble just like his role model.

TRADERS´: Did you have the feeling then, that your father "missed out" on something? After all there were astronomical increases in price in technology stocks.

Well, all my friends who invested in the markets then had very high book profits very fast. Of course this was tempting. However they did not succeed in keeping the profits – as the market crashed, the money was gone and partly it turned out to be a loss. This observation raised my understanding for the meaning of fundamental evaluation.

TRADERS´: How did your own trading work out in the beginning?

I mainly traded momentum intraday and had a very small account in comparison. At the beginning it worked out ok, but that was more an obstacle. I started to overestimate myself and opened big positions out of greed.

I broke more or less all of my rules at least once *(laughs)*. The worst part was in 2003 when I lost all profits of the previous three months within two days and this finally opened my eyes for the risk in trading.

TRADERS´: Can you remember the details of this trade?

It was the stock of Pet Med Express (PETS, Figure 1). This stock was recommended by several analysts and had rallied already. I bought at the breakout and handled the following drop badly. Instead of selling immediately I hoped that there would be a reversal and that increased the loss even further.

TRADERS´: How big were your losses?

From today's point of view I have to say, that I was very lucky that I only traded with a small account. I lost about 2000 or 4000 USD. But what was worse: I lost my self-confidence.

TRADERS´: It seems that this was a turning point in your career. How did you move on?

I knew that I could be successful in trading, if I avoided the same mistakes. But this is easier said than done. And my confidence in my trading was really damaged. Therefore I stopped trading and focussed on my studies. I did an internship in Washington and accompanied the presidential election campaign and

F1) LOSS TRADE IN PETS

The stock of PetMed Express (PETS) was a loss for Corey Rosenbloom in 2004 that started his psychological problems with trading. After a breakout in the beginning of June he bought a big position (see mark) and afterwards the stock plummeted within two days. Source: www.tradesignalonline.com

this was a very interesting job. I started to build a way into politics.

TRADERS´: However you returned to trading. How did you do it?
In the year 2006 I finished my studies. I told myself that I wanted to try trading seriously once more and agreed with my family that I could spend one year. At the beginning I was very conservative and did not trade much and that dampened my enthusiasm. But after some time I started my blog and began to trade small positions intraday. That gave me the feeling of "real" trading and that it was a real "job". Through the blog I socialised with some interesting people of the trading world. During this time I managed to overcome my psychological trading difficulties.

TRADERS´: What is your approach today?
I have an intraday- and a swing trading-approach. I combined a few things for the swing trading that make a reasonable whole for me. In short, I try to combine trading and investing. I look at the fundamentals, the sector rotation and the intermarket-relations, but at the charts and important technical facts, like the Relative Strength, as well. I trade the swing-trading system in a time frame of several days to several weeks. The goal is to buy the strongest and fundamentally best stocks in the strongest sectors and to short the weakest stocks in the weakest sectors. I try to maintain a good balance between longs and shorts in "normal" market phases.

TRADERS´: And how does your intraday approach work?
I try to take the knowledge of my swing trading to the intraday approach. I talk about 5-minute charts. It is not important to make many trades but to trade only the best setups. Most of the times I have two to five trades per day. I determine important points on the daily chart and formulate if-then-clauses.

> I can only advise other traders to become an expert in one instrument, especially when trading short term.

TRADERS´: Which instruments do you trade intraday?
In general I trade the S&P-future exclusively. That is "the market" and all information is there. I do not have to concentrate on thousands of things, but only on one instrument. I can only advise other traders to become an expert in one instrument, especially when trading short term.

TRADERS´: Can we return to the setup once more? How do you find the trades on the intraday chart exactly?
As I already mentioned I get the feeling from my swing trades. In addition, there is the structure of the price movement in the daily development. You can estimate market behaviour by analysing the pre-market price movement, the early trading, midday, the late trading and the post-market phase individually. This is important to recognise if we will get a trending day or a range day.

TRADERS´: Ok, and after you know whether it will be a trending day or a range day you follow the "right" strategy. But how can you recognise early in the day whether it will be a trending or a range day?
Trending days can usually be characterised by considerably higher or lower prices in Europe and this leads to gap-opens in the US-market. On trending days you can see high volume in the pre-market already. The probability for a trending day increases further, if the according direction maintains at high volume during the first trading hour. If this is the case I am quite sure that it will be a trending day. Then one of my favourite setups is to trade pullbacks at the 20-day moving average (MA) in the 5-minute chart, if the 50-MA confirms the trend direction.

TRADERS´: And how do you recognise range days early on?
It is more or less the contrary situation. Most of the time there are no or unimportant news, the volume pre-market is low and there is no or only a small gap.

If the gap is closed in the first trading hour and prices move back and forth already chances are that it will be a range day. Then I start trading reversal candles at the Bollinger Bands – this works very good within a range. In addition I look at divergences between price and indicators like momentum – and I watch the TICK-indicator. I do not look at the MAs in a range market.

TRADERS´: How does your trade management look like concerning the Bollinger-Band Setup?

Let us assume that the price has reached the upper band and has ideally increased a bit above. In this situation I take a look at the 5-minute chart and watch out for bearish reversal candles like a shooting star or a bearish engulfing. I sell, if the low of the formation is undercut. My stop-loss is one point above the high. My target for half a position is the middle of the Bollinger Bands, thus at the MA. The target for the second position is near the lower band – that is how I use it to its full capacity if the market runs to the lower border as expected within the range. The same goes accordingly for long positions.

TRADERS´: This setup seems feasible. Do you have another tip for traders in this setup?

In general it is important to trade the strategy correctly. Everything has to be executed without question – even if it may not work according to plan. This is especially important for the stop-loss. You cannot be sure if it will be a trending or a range day.

TRADERS´: What are the most common mistakes traders make in your opinion?

Most traders do not act according to a plan. For example, they open a position too late or close too early. I think the reason is that they wait for another confirmation to take the trade although they have a valid signal. In the case of profit they exit too early because they cannot stand to lose their book winnings and therefore they take an early profit instead of no profit at all. The risk/reward-ratio (RRR) will worsen in both cases without increasing the hit rate.

As the combination of both factors is responsible for the success, the trading result will worsen. Although some traders understand this context they are not able to stick to the rules.

TRADERS´: How can you overcome such psychological problems?

Many popular traders had one terrible experience – that means a big loss – in their career that they survived and that opened their eyes. The best example is to trade without a stop-loss and to suffer a big loss for this reason. But you will not suffer a big loss, if you always enter or exit too early – at least it is not very likely. This is the reason why it is sometimes better to get one slap in the face and to wake up because of it than to loose steadily and never learn anything. In the end it takes time to overcome psychological difficulties, but if you really love trading and believe in yourself, you can make it.

TRADERS´: The markets fluctuate between emotional extremes – greed and fear. How come?

There are many ways to earn money in the markets. In the end it is always a combination of hit rate and RRR. It gets difficult if you experience a series of losses – and that will be the case. If that happens, traders get the feeling of helplessness, fear and failure. Greed develops accordingly during phases of winners, that also happens. The trader feels like a trading-god and starts making mistakes: too early entries, too late exits and too big positions. As a pro you have to be aware of these effects to limit them.

It is not important to make many trades but to trade only the best setups.

TRADERS´: What insight can you give traders on their way?

The winning concepts for the markets are not new. Except High Frequency Trading. All the books about the strategies of the famous traders do have one benefit: They teach the techniques and mainly the fundamental principles that are important for the trading success. Anybody who internalises them and uses them consequently has good chances to succeed in trading.

SUMMARY

Corey Rosenbloom is a good example of how people can overcome even high psychological barriers when they actually love trading. After giving up on trading and instead pursuing an attractive path to a career in politics, he still found the strength to give trading another try, setting himself a firm deadline by which time he would have to be successful or else… Drawing on the knowledge he had acquired during his break from trading, and using the ideas and suggestions he received on his blog, he managed to make it into the trading business on a permanent basis. However, whenever anyone makes a similar attempt it never hurts to have a plan B, as was the case with Corey. If you are struggling with similar difficulties, Corey's way could be a good example of how you can succeed regardless.

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MERLIN ROTHFELD

SUPPLY AND DEMAND ARE KEY

Mr Merlin Rothfeld has been active on the markets since 1996. After completing his degree in business finance, he first worked for a company in California where he implemented traditional long-term investment decisions. In 1998 he began day trading on his own account. Over the years he has become a much sought-after speaker at trading fairs and universities. He was also involved in establishing the largest trading school in the World, the Online Trading Academy. From 2001 to 2005 he worked in Italy, collaborating with a university on implementing a training program for traders. During this time he mainly traded on the European markets. Merlin hosts a free, live, daily radio show at 6pm EST called „Power Trading Radio“ (www.powertradingradio.com) which is about options, futures, currencies, commodities, psychology, real estate, stocks and more. Listeners can send in questions which are answered live on the air.

➔ TRADERS´: Mr. Rothfeld, we are pleased that you have taken time out for an interview.
Thank you, I am just delighted. After all, you are the one who has come all the way from Germany to talk to me. And I can tell you right away that I spent the first three years of my life in Germany before my parents moved to California. So I am particularly pleased that you have made this interview possible.

TRADERS´: Obviously, you were too young back then to know what trading career you had ahead of you. How did you first establish contact with the stock market?
My father kept a register of the stocks on the S&P index. He looked at the fundamentals, and I have always picked his brains, trying to find out what it all means.

TRADERS´: Which certainly led you to join the ranks of the fundamental analysts.
Yes, exactly. In my studies I examined long-term investments, which were based on tables of fundamental data. This was the mid-nineties. I did not look at any charts. And I tell you this: It did not work!

TRADERS´: And do you know why it did not?
Not because of lack of knowledge on my part anyway. I had read all kinds of books on fundamental analysis that existed in academia. But just as the efficient market theory is not correct, so fundamental analysis does not work.

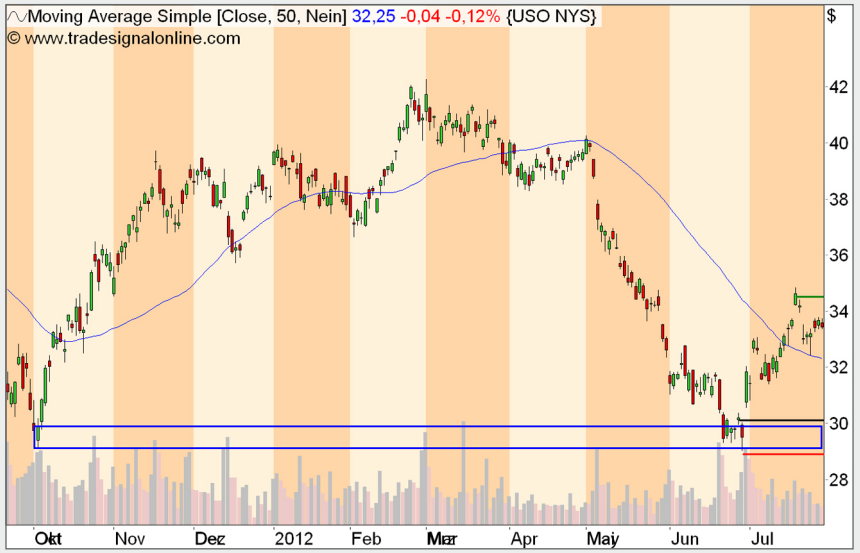
Or maybe it does, but you cannot make any money with it if it is applied in isolation. Anyway, I had to free myself from pure fundamental analysis and keep looking for something new.

I started with a $50,000 account, and after six months I had lost half of that money.

TRADERS´: What did you discover?
I think it was in 1998 that I read an article about a young daytrader named Serge Milman (editorial comment: see interview on pages 34-38). He had earned $800,000 in one year, after taxes. I found that very impressive. He was trading in a style that I had not heard of, daytrading. This was using primarily Level 2 data (order book) to make his trades. So I began to look into these new market tools.

TRADERS´: How did you acquire the knowledge?
I attended a one-month trading seminar which placed a lot of emphasis on market research and analysis. I quickly learned more and more about the subject. Still, it was difficult even after this seminar because I

F1) USO – POWERPICK OF THE DAY



The chart shows the United States Oil Fund (USO). Drawn in are my stop (red line), entry (black line) and target levels (green line) with the demand zone (blue box). Back on May 7th, Merlin thought that USO had fallen into a pretty strong demand level at$36. After a very small pop to the upside, he was stopped out a few days later for a $0.55 loss per share. In hindsight, he was very happy to take the stop as price continued to plummet for the next month and a half. He also made it a point to state that he would be waiting for price to fall into the October 2011 lows to buy in again. He was setting this trade as a "Confirmation Entry" as of July 30th: Long above $30.10, stop-loss at $28.95, target $34.50. You could try to time it lower in the demand zone, but that greed might cause you to miss the move. Source: www.freestockcharts.com

just could not stick to some of the basic trading rules. I started with a $50,000 account, and after six months I had lost half of that money.

TRADERS´: That was a severe setback. What happened then?
What I lacked was a kind of authority figure. I knew what I had to do but there were times when I could not follow the rules. And invariably it was then that things got to be expensive. So I began at that time to share my formal knowledge with others and teach

> I knew what I had to do but there were times when I couldn't follow the rules.

them, which also improved my trading. By continuing to communicate the rules I knew so well, I managed to actually adhere to them myself. Furthermore, I set myself a daily loss limit of $500.

TRADERS´: Did your trade frequency change as well during that time?
Yes, considerably so. Initially, I made on average 550 trades per day in the late 1990's, which I find unimaginable today. Sometimes I make up to 20 trades a day, but in the end the best days are usually those when I use only two or three very good opportunities. In this business you have to know exactly what you are doing.

TRADERS´: And what do you look out for to find out for sure which is the right trade?
Most traders look too much at exact support and resistance levels. As a result, there is always a lot of "cheating" going on in these areas, for example by way of false breakouts. More important is the actual buying or selling pressure, i.e. the strength of demand and supply, their relation to each other and the change in this ratio over time. After all, whether or not a support holds is ultimately decided by the actual strength of demand.

TRADERS´: And how do you determine the strength of supply and demand?
In the good old days this could easily be seen in the order book (Level 2 data). Today, however, this is nothing but a giant poker table.

You therefore need to observe price behaviour very closely. How often, for example, has a technical level been touched? How strong was price reaction at this point, and how much volume was there while all this was happening? Was there a chain reaction with a cascade of rising or falling prices, as is often the case at major highs or lows? These criteria need to be observed and a trading decision needs to be based on that.

TRADERS´: How do you trade a demand or support zone?
Let us start with a demand zone. By way of analogy, this can be applied to a supply zone. If a stock comes out of a downward movement and, for example, levels off in the range between 19 and 20 dollars, that is a sign of many buyers entering the market in this range. It is therefore natural to seek a long setup.

- **Option 1:** Anticipating the demand zone at the first entry, i.e. when the stock falls below $20. At this point we are not sure that the demand zone will hold, therefore it is a bit risky, however easier to buy as people are still selling the security.
- **Option 2:** Price is now deep in the zone between $19 & $20. Buying here increases our risk of being stopped out as we are buying so close to the stop, but also reduces the actual dollar amount of loss as we are buying so low in the zone. This method also offers the best Risk/Reward ratio.
- **Option 3:** We wait until the stock moves to the upper part of the demand zone and ideally can stabilise there contrary to the market movement.

Now we have a tradable setup with a stop below the low of the zone. Alternatively, traders can wait for the breakout and then go long in the first pullback. The objective should be an RRR of 2.0 to 3.0.

As a result, each trader must develop rules on which entry they will use. Each trader has a personality that will dictate which of the above entries they should use.

TRADERS´: Which mistakes do you think most traders make?
The biggest mistake is not to have a fixed plan. The second biggest one is the goal of making money – this

mindset is a mistake since trading initially is all about not losing any money. Third, traders pay far too little attention to position management. And finally, many traders think that they are the greatest if they happen to have a lucky streak or when there are signs of the first few strings of successes.

But as soon as you think as a trader that you have what it takes, along comes the market and knocks you to the ground.

So you have to learn to remain realistic and to settle for what the market is offering – or not, as the case may be.

TRADERS´: How can you best describe good trading?

It is like baking a cake. You need all the ingredients and a recipe or someone to show you how to proceed. The ingredients and the right process make up the good cake.

In the end, it does not matter what kind of "tactics" you use as you stir in the sugar, for example, which can be compared to the choice of the "right" indicator. In the final analysis, what counts is the ingredients defined in the trading plan and the process, i.e. the choreographed routine.

TRADERS´: That sounds as though you do not trust indicators.

It is not that I don't trust indicators, they are just reactionary to price. So it is better to determine what price is doing and use indicators as decision support tools. I will give you an example: For those who are married, you remember the first day you met your significant other. That day you "Put that trade on". The first time you brought them home for the holidays to meet the whole family is like using technical indicators. If Brother Bollinger Band, Cousin MACD, Sister CCI all come back and support your trade, then you feel more confident. If not, you may second guess your trade and exit till you find another with better prospects. I never trade exclusively with indicators. They are purely a decision support tool.

SUMMARY

Not unlike Corey Rosenbloom, Merlin Rothfeld initially had considerable difficulty being consistently profitable. However, he too, was able to overcome this hurdle, albeit taking a slightly different route: He began offering training sessions to budding traders. This caused both his trading knowledge and convictions to be strengthened – so much so that he eventually came to internalise it all and was able to apply it on his own account. To be sure, this strategy does not suit everyone. But the example shows that in the end it does not matter how you did it: Find your own way and see it through. Be sure to trust your own sense of how you can do it – nobody other than yourself can give you better advice on how to overcome your obstacles.

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Mike Bellafiore
is the author of the trading classic "One Good Trade: Inside the Highly Competitive World of Proprietary Trading" (Wiley Trading) and co-founder of SMB Capital, a proprietary trading firm in New York City. Mike is also the co-founder of SMBU, an educational company that helps new and developing traders globally build their trading foundation in all products, including systems trading, utilising the principles of elite performance. Mr Bellafiore has traded his own account professionally for more than 15 years. Contact: mbellafiore@smbcap.com.

➔ I am the guy you pitch as to why you should be hired for your "dream job" as a trader. This whole trader recruiting thing is inverted. You should not be pitching me. My desk should be pitching you. But you need to do some work before this can happen. Like start developing a track record now! During a recent interview at the Las Vegas Traders Expo I outlined what I call the GM Test. If I were the GM, General Manager, of the New York Knicks and I told you someone sat in my office and said, "You know I really like this whole basketball thing. I have been playing a lot of pickup basketball with my buddies from DrinkingGames Dorm, we just won the school club championship, been hitting the weight room, put on a few pounds of muscle and am thinking I would be a nice pick for you in the First Round." What would you think? You would think I was a soon to be ex-GM of the New York Knicks.

But this is what we do in the trading world. In our trading world some bright, ambitious, and well-mannered candidate sits in offices all across the country and talks of their love of trading. As "proof" they offer that they watch CNBC, read the Wall Street Journal, and play around with an underfunded account. This is insufficient preparation for your life passion. If I were the GM of the Knicks, I could have watched you in high school, AAU ball, college, had you in for drills, scrimmages with like talent, interviews, body fat and drug testing, etc. There is meaningful data available that I could use to predict how you will do in the future. In MoneyBall, by Michael Lewis, we learn some major league baseball teams shun drafting high school athletes because this playing data is too limited to make an investment in a player. And with CNBC answers like above, what can I really model accurately about your ability to trade pro? More importantly, what can you say to yourself about your ability?

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Trading is a skill. You were not born a great trader. The insightful books on elite performance such as "Talent is Overrated" by Geoff Colvin, "The Talent Code" by Daniel Coyle and "Outliers" by Malcolm Gladwell teach us that to become great at anything requires purposeful practice over an extended period of time. In "The Inner Voice of Trading", Michael Martin writes it takes a trader about eight years to play expert. You need screen time to become a consistently profitable trader.

In June of 2011 SMB started its summer training class with ten students. As I write, the two best performers traded in college. They started faster, did better, learned more and more quickly, added more to the desk, and were most enjoyable to coach. At SMB Training Blog I have written about the rise of the college trader and barren university trader education.

Before trading coach Dr. Brett Steenbarger left the trading blogosphere for a top US-Hedge Fund, he saturated his must-read TraderFeed Blog with the importance of working on your trading game. Paper trade. Trade a small account. No matter. Just trade. If trading is your passion, Dr. Steenbarger then concluded that there is no excuse in this hyper-connected, on-line age not to develop a track record. Be that candidate who walks into an interview and drops a few profitable years of trading records on the desk of a partner. Then sit back and wait for him to pitch you.

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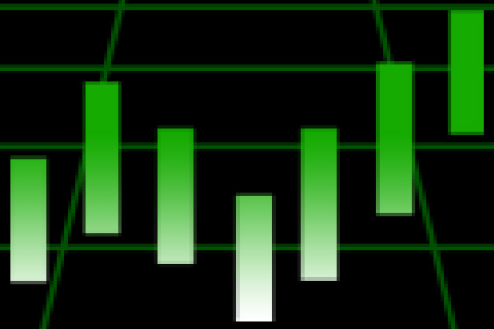

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